

# International Agenda

## IAASB – March 2023

**AUASB Board Mtg 15 March 2023**  
**Agenda Item 6.0**



Australian Government

Auditing and Assurance Standards Board

# IAASB Topics – March 2023

## **Memo to the AUASB:**

1. The purpose of these slides is to highlight to the AUASB the main areas of consideration, due to be discussed by the IAASB at the upcoming March 2023 IAASB meeting; and to seek AUASB input on various elements of the proposals.
2. Owing to the early timing of the Going Concern papers and the nature of the Sustainability project, these areas have been addressed through more detailed Agenda Papers (Agenda Items 6.1 and 6.2).
3. The ATG intends to talk through the slides and Agenda Papers at the March AUASB meeting.



# IAASB Topics – March 2023

1. Sustainability [Refer Agenda Item 6.2]
2. Going Concern [Refer Agenda Item 6.1]
3. LCE Standard [Slides 3-4]
4. PIE project – track 1 [Slide 5]



# LCE Standard – March 2023

## Changes to date:

1. ED – Group Audits (currently on Exposure)
2. Quantitative thresholds – additional safeguard
  - Indicative thinking – EU small enterprise
  - Expectation for local jurisdictions to set
3. Qualitative thresholds
  - Tightened up
  - Illustrative indicators – to narrow usage
4. Risk Assessment – marginally simplified for circumstances of LCE including more EEM regarding scalability



# LCE Standard – March 2023

## Focus areas for March:

1. Audit evidence and documentation
  - Little substantive change, however, consider will improve particularly in the simplified risk assessment part
  - Can't end up in a different place to ISAs – reduce audit quality and will be seen as a lesser product
  - EEM to explain not expected to document every matter/judgement
2. Engagement quality
  - Improved proportionality: separate text box sections where more than one member on engagement team – assist sole practitioners
3. Acceptance
  - Engagement letter will not specify under ISA for LCE – no such requirement in full ISA and both achieve reasonable assurance



# LCE Standard – March 2023

## Focus areas for March (continued):

### 4. Planning

- More content on experts: it's the underlying matter that drives determination of the use of the standard, not the use of the expert themselves
- Going concern – removed requirement for explicit preliminary assessment but rather focusses on more direct inquiry of management
- Materiality – guidance related to identifying appropriate benchmarks and guidance particularly related to public sector

### 5. Estimates – more essential explanatory material

### 6. ISA 800 series – confirmation that not going to open LCE at this time, needs more outreach and information gathering to determine need

## Where to from here:

### 1. Full draft – June 2023



# PIE Project – Track 1

## Feedback from exposure of Track 1:

1. General support for mechanism of IESBA PIE Independence Disclosures being in the auditor's report under the Basis of Opinion Section
2. Not concerned changes will negatively impact length, complexity and utility of auditor's report due to limited changes and not practical to delay to consider cumulatively
3. Do not consider the requirements will introduce new/original information about the entity itself (namely that it is a PIE) in the Auditor's Report
4. Narrow scope amendments to ISRE 2400 as part of track 2
5. Potential corresponding changes to ISRE 2410 may be considered if the standard is wholistically updated as part of any updated IAASB strategy/workplan
6. Path forward
  - present the final narrow scope amendments to ISA 700 and ISA 260 (Track 1) to the IAASB for approval in June 2023
  - continue its work on Track 2 in Q1 of 2024, approval ED June 2024





## AUASB Agenda Paper

<b>Title:</b>	Going Concern – ISA 570	<b>Date:</b>	27 February 2023
<b>ATG Staff:</b>	Rene Herman	<b>Agenda Item:</b>	6.1

### Recommendations and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
<b>Question 1</b>	There are no specific technical questions of the AUASB. The AUASB has been kept up to date throughout the development of this standard. Members are welcome to share any fatal-flaw comments on ED ISA 570 Going Concern.	The ATG has no further comments.
<b>Question 2</b>	To vote Proposed ISA 570 out as an Exposure Draft in Australia, does the AUASB support a virtual meeting in May 2023 or would the AUASB rather engage on this topic out of session via email?	Owing to the extensive coverage this Exposure Draft has had over time with the AUASB and the AUASB's Due Process of issuing the IAASB's Proposed Standard in Australia via a 'wrap-around' Consultation Paper, the ATG recommends an out of session vote following the release by the IAASB.

### Background and Previous Discussions on Topic

1. From the time of the IAASB's Discussion Paper on Fraud and Going Concern back in September 2020 and through the Project Proposal approved in March 2022, the AUASB has been taken through the key proposals being put forward by the IAASB in relation to the revision of ISA 570 Going Concern. The topic has been discussed at many AUASB meetings under the International Agenda Item.

### Matters for Discussion and ATG Recommendations

2. At the upcoming March 2023 IAASB meeting, the IAASB will vote to issue Proposed ISA 570.
3. At this stage of the project, the purpose of this Agenda Paper is to remind the AUASB what the Project Objectives of a revision to ISA 570 were (paragraph 5 below) and to highlight to the AUASB the more substantive changes to the requirements of the standard that will meet those objectives and improve audit quality. Additionally, the ATG has indicated in the table below, where the AUASB had comments on the IAASB's Discussion Paper thereby supporting some of these proposals.
4. A final draft of the proposed standard is available [[here](#)].

## 5. Project Objectives:

- (a) Promote consistent practice and behaviour and facilitate effective responses to identified risks of material misstatement related to going concern;
- (b) 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 scepticism
- (c) Enhance transparency with respect to the auditor's responsibilities and work related to going concern where appropriate, including strengthening communications and reporting requirements

6. The purpose of the table below, is to highlight to the AUASB the **more substantive** matters that have been addressed in ISA 570 to address project objectives that support the public interest. Except for technology, the changes to the application material of the standard have not been reflected below.

	Area addressed	Substantive matters addressed in the requirements of the standard:
a.	Responsibilities [Paragraphs 3-7]	Introduction clarifies management's responsibilities first and then auditor's responsibilities.
b.	Risk Identification and Assessment [Paragraphs 11-15]  <i>Enhanced linkages to ISA 315 were supported in the AUASB's submission to the IAASB Discussion Paper</i>	Enhanced and new requirements to: <ul style="list-style-type: none"> <li>• Enable a more robust approach for performing risk assessment procedures that will provide audit evidence to support an appropriate basis for identifying, on a timely basis by the auditor, the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.</li> <li>• 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</li> </ul>
c.	Use of Technology [Paragraphs A6, A12, A36, A38]  <i>Consideration of technology to predict financial stress was supported in the AUASB's</i>	Enhanced and new <b>application material</b> to incorporate examples of automated tools and techniques and emphasise the impact of technology on the auditor's work related to going concern. Particularly beneficial is incorporation of risk of cyber-attack and use of predictive modelling.

	Area addressed	Substantive matters addressed in the requirements of the standard:
	<i>submission to the IAASB Discussion Paper</i>	
d.	<p>Reinforcement of professional scepticism</p> <p>[Paragraphs 17, 30]</p> <p><i>No commentary on PS in the AUASB's submission to the IAASB Discussion Paper</i></p>	<ul style="list-style-type: none"> <li>• New requirements to emphasise the importance of professional scepticism 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.</li> <li>• New requirements 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.</li> </ul>
e.	<p>Timeline over which going concern assessment is made</p> <p>[Paragraph 21]</p> <p><i>A timeline that is consistent with extant ASA 570 was supported in the AUASB's submission to the IAASB Discussion Paper</i></p>	Change in the commencement date of the period of the auditor's evaluation of management's assessment of going concern, from the date of the financial statements to the date of approval of the financial statements (in Australia already date of auditor's report).
f.	<p>Management's assessment of going concern</p> <p>[Paragraphs 16, 18, 25, 26-27]</p> <p><i>Improvements in evaluating management's assessment of going concern were supported in the AUASB's submission to the IAASB Discussion Paper</i></p>	<p>Enhanced and new requirements to:</p> <ul style="list-style-type: none"> <li>• Require the performance of audit procedures to evaluate management's assessment of going concern, irrespective of whether events or conditions that have been identified.</li> <li>• 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.</li> <li>• Strengthened requirements to evaluate whether management has the intent to carry out specific actions in its plan and the ability to do so.</li> <li>• New requirement to explicitly request management to update its assessment and for the auditor to perform audit procedures on such revised assessment when the auditor identifies</li> </ul>

## AUASB Agenda Paper

	Area addressed	Substantive matters addressed in the requirements of the standard:
		events or conditions that may cast doubt that management has not previously identified or disclosed to the auditor.
g.	<p>Transparency in reporting through the auditor's report</p> <p>[Paragraphs 35-39; Appendix illustrative reports]</p> <p><i>Differentiation MURGC/KAM were supported in the AUASB's submission to the IAASB Discussion Paper. There were mixed views about more disclosures.</i></p>	<p>New requirements to:</p> <ul style="list-style-type: none"> <li>• Provide explicit statements about going concern in a separate section in the auditor's report when the basis of accounting is appropriate, and no material uncertainty exists.</li> <li>• When events or conditions are identified or when a MURGC section is provided, describing in the auditor's report of a listed entity how the auditor evaluated management's assessment.</li> </ul>

### Next steps/Way Forward

7. Subject to March IAASB approval, the IAASB expects to publish the ED of proposed ISA 570 in May 2023 for a 120-day comment period with responses due early September.
8. Owing the timing of the IAASB's publication of proposed ISA 570, the ATG will either bring the Australian Consultation Paper to Expose ISA 570 in Australia to the 2 May 2023 AUASB Virtual Meeting (this date may need to be pushed back to facilitate this) or the ATG could circulate the necessary documents for an out of session via email vote.

### Materials Presented

Agenda Item	Description
6.1.1 (*SP)	Proposed ISA 570

\*SP: AUASB Supplementary Papers Pack



## AUASB Agenda Paper

<b>Title:</b>	ISSA 5000 - Sustainability	<b>Date:</b>	6 March 2023
<b>ATG Staff:</b>	Rene Herman	<b>Agenda Item:</b>	6.2

### Questions for the Board

Question No.	Question for the Board
<b>Question 1</b>	<p>Paragraphs 9-18 of this Agenda Paper cover various elements of the standard for which we request the AUASB members to provide specific feedback/ideas. These areas cover:</p> <ul style="list-style-type: none"><li>• Definitions – management’s expert (paragraph 11 of this agenda paper)</li><li>• Responsibilities / characteristics of the engagement leader (paragraph 13 of this agenda paper)</li><li>• Internal and external experts and use of other practitioners (paragraph 13 of this agenda paper)</li><li>• Acceptance and continuance (paragraph 14 of this agenda paper)</li><li>• Evidence (paragraph 15 of this agenda paper)</li><li>• Materiality including performance materiality (paragraph 16 of this agenda paper)</li><li>• Risk assessment and response – differential in work effort (paragraphs 17/18 of this agenda paper)</li><li>• Other information (paragraph 19 of this agenda paper)</li><li>• Reporting (paragraph 20 of this agenda paper)</li></ul>
<b>Question 2</b>	Is there any other feedback the AUASB would like to provide on Proposed ISSA 5000?

### Background and Previous Discussions on Topic

1. The IAASB is in the process of drafting ISSA 5000, a stand-alone sustainability assurance standard which will cover the assurance engagement from beginning to end.
2. The standard is drafted with greater specificity for areas of the engagement where priority challenges have been identified (e.g. materiality, suitability of criteria, audit evidence, reporting).

3. The standard is principles-based to be suitable for assurance engagements for all topics, information disclosed about the topics and mechanisms for reporting.
4. The standard draws from largely existing materials from ISAE 3000 and ISAE 3410 + ISAs (judgement involved in selection of requirements and application material) + EER Guidance + 'new' [new largely by way of examples/application material].
5. The aim is for this standard to be voted on for exposure at the September 2023 IAASB meeting.

### Matters for Discussion

6. While the AUASB is encouraged to read all parts of the Proposed ISSA 5000 and comment on any requirements or application material in the standard, this paper seeks to draw the AUASB's attention to some specific areas of the standard. The ATG proposes to deal with each of the matters below at the upcoming AUASB meeting to seek members' input on the areas.
7. AUASB members are reminded that this is an overarching standard so while 'more content and guidance' is sometimes beneficial, this needs to be balanced with the intention of the standard being an over-arching principles-based standard.
8. This AUASB meeting is the time that AUASB input/feedback will be the most influential into the progression of the standard and AUASB members should provide all substantive comments at this upcoming March meeting.
9. A link to the proposed requirements of ISSA 5000 is provided [[here - link to IAASB](#) or refer Agenda Item 6.2.1 in the supplementary pack].
10. A link to the proposed application material of ISSA 5000 is provided [[here - link to IAASB](#) or refer Agenda Item 6.2.2 in the supplementary pack].

### Areas for specific AUASB attention

*[Paragraph references provided relate to the specific part of the standard (Agenda Items 6.2.1 and 6.2.2) – at this stage of the drafting process, for each part the numbering restarts – so AUASB need to first find the part number and then the paragraph reference]*

11. Definitions:
  - Management's Expert – field other than assurance [*Reference para 1(v)*]. Note, Proposed ISA 500 'in a field other than accounting'. The Task Force considered the definition but is of the view that given the broad nature of underlying subject matter in preparing sustainability information, it would not be appropriate to refer to "a field other than "sustainability assurance."
12. Part 1 Conduct of an Assurance Engagement:
  - Nothing specifically
13. Part 2 Fundamental concepts/general principles/overarching

- Engagement leader responsibilities/characteristics – collective competence, assurance competence, sufficient competence in underlying subject matter [[paragraph 10, 17](#)]
- Refer matrix contained at Appendix 1 to this summary for a visual illustration of the individuals that may be involved in an assurance engagement and the requirements that are applicable to the work of such individuals. This matrix should be read in the context of the engagement team definition as contained in paragraph 1(l) of Agenda Item 6.2.1; noting that internal experts and other practitioners where engagement leader can be sufficiently involved are deemed part of the engagement team.
- Use of external expert: not part of engagement team, but must be sufficiently involved [[paragraph 18 and 27](#)]
- Use of other practitioners (when outside of team i.e. work performed for another purpose hence can't be sufficiently involved) – considered critical for proposed standard to accommodate the ability to use work of another practitioner that had already been performed for another purpose as evidence from that engagement may be relevant to the practitioner's assurance engagement [[paragraph 28](#)]

14. Part 3 (acceptance and continuance):

- Is the extent of work effort for preconditions reasonable/appropriate/current practice? [[Paragraphs 1-7](#)]
- Is the application material in relation to meaningful level of assurance appropriate [[Paragraph A47L-A49L](#)]
- Is the overall work required before accepting the engagement too burdensome (Paragraph 1-17, A1-A56)

15. Part 4 (evidence and documentation):

- The Task Force has developed a principles-based requirement for evaluating the relevance and reliability of information intended to be used as evidence that is aligned with ISAE 3000 [[Paragraph 2](#)]. The consideration of the source of the information [[Paragraph A28-A30](#)] and the attributes of relevance and reliability [[Paragraph A31-A36](#)] has been retained within AM. Has this gone a bit far in terms of principles based? Does the reference to source and attributes need to be incorporated into the requirement?

16. Part 5 (planning/materiality):

- Is there sufficient application material on materiality? [[Paragraphs 7 and A15-A29](#)], particularly around qualitative considerations [[paragraph A24](#)] if not, what's missing?
- Has performance materiality been appropriately considered – that is, it is not a requirement to set PM for quantitative disclosures – rather it is a consideration (it is not always possible to determine an amount lower than materiality for the various types of information, including narrative information) [[Paragraph 7A, A29B-A30A](#)]

- How should double materiality\* be dealt with, if at all? – has not been considered as part of this draft (other than Paragraph A37) but will be included in next draft.

17. Part 6 (risk assessment)

- Is there a meaningful differential in work effort between LA and RA [paragraphs 1L/1R - 20L - 20R] and is the required work effort for LA too onerous?
- Risk assessment under ISA 315 is a complex standard – ISSA 5000 has introduced many of the principles underpinning ISA 315. Is Part 6 too complex for all assurance practitioners to implement?

18. Part 7 (responding to ROMM)

- Is there a meaningful differential in work effort between Limited Assurance and Reasonable Assurance, noting that many of the requirements in Part 7 apply to both limited and reasonable assurance engagements, although the nature and extent of the procedures may be different. [Paragraphs 1L/R -21L/21R]
- Is there sufficient content for estimate and forward-looking information? [Paragraph 19L/R-20R]

19. Part 8 (concluding)

- There is a lot of application material in the area of accumulation and consideration of identified misstatements (almost 6 pages - Paragraphs A1-A24) – is this really needed – do practitioners need hand holding here?
- Other information [paragraph 19] – is the reading and consideration of other information considered reasonable? Does this work – what if you don't receive any other information before the date of the assurance report? (note: given that many sustainability assurance engagements may be narrow in scope, and the other information may be voluminous in relation to the sustainability information within the scope of the assurance engagement, the Task Force concluded that it would be unreasonable to require procedures on other information available after the date of the assurance report for all sustainability assurance engagements.)

20. Part 9 (reporting)

- Same as with financial reporting, Limited Assurance engagements reports provide more information – is this appropriate with sustainability and is the level of detail regarding procedures undertaken for such broad engagements a reasonable requirement [paragraph 3(i)]?
- The Task Force has determined not to include Key Sustainability Assurance Matters as part of reporting – what are your views?

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\* Example demonstrating the meaning of paragraph A37: considering both the impact of climate on the entity and the impact of the entity on climate change demonstrates the concept of double materiality.

### Next steps/Way Forward

21. The IAASB intends to issue ED ISSA 5000 in September 2023 for a 120-day exposure period. The AUASB will simultaneously expose in Australia and conduct outreach.
22. The final standard is expected to be issued Q4 2024.

### Materials Presented

Agenda Item	Description
6.2.1*	ISSA 5000 - Requirements
6.2.2*	ISSA 5000 – Application Material

\*SP: AUASB Supplementary Papers Pack

## Appendix 1

### Individuals Involved in the Engagement

Individuals Involved in the Engagement	Practitioner <u>can</u> be sufficiently and appropriately involved in the work	Practitioner <u>cannot</u> be sufficiently and appropriately involved in the work
Firm Personnel	<b>Engagement Team Member</b> – Direction, Supervision & Review (DS&R) applies (Part 2, Para. 21-24)	N/A
Practitioner’s Internal Expert	<b>Engagement Team Member</b> – DS&R applies (Part 2, Para. 21-24)	N/A
Practitioner’s External Expert	<b>Work Performed by Others</b> Practitioner’s External Expert (Part 2, Para. 18 & 27)	N/A
Another Practitioner ( <i>incl. Network Firms and Non-Network Firms</i> )	<b>Engagement Team Member</b> – DS&R applies (Part 2, Para. 18 & 21-24)	<b>Work Performed by Others</b> Another Practitioner (Part 2, Para. 28)
Internal Audit	<b>Work Performed by Others</b> Internal Audit (Part 2, Para. 29)	<b>Work Performed by Others</b> Internal Audit (Part 2, Para. 29)



## AUASB Agenda Paper

<b>Title:</b>	AUASB Technical Work Plan Update	<b>Date:</b>	1 March 2023
<b>ATG Staff:</b>	Matthew Zappulla	<b>Agenda Item:</b>	7.0

### Recommendations and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
<b>Question 1</b>	Does the AUASB have any feedback on the details of AUASB priorities and projects/tasks outlined in the AUASB Technical Work Program presented at <b>Agenda Item 7.1</b> .	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 November 2022 AUASB meeting, 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 7.1**.

2. The updated Work Program incorporates feedback received from the AUASB's Agenda Consultation Process which was 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 February 2023 the AUASB Technical Group (ATG) staff have identified 43 current or prospective projects to date for the current period, with approximately 80% of these connected to the six AUASB strategic priority areas. In total 19 specific projects have been completed so far over the first 8 months of the 2022-23 reporting period, with 6 projects completed since the last AUASB meeting.
4. The ATG continues to maintain 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. This is summarised for AUASB Board Member at Agenda Item 2.1 (using a standardised format). The ATG will continue to review and update this presentation quarterly to inform AUASB members of the progress against the 2022-23

# AUASB Agenda Paper

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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 January 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 March 2023 AUASB meeting.

## Materials Presented

Agenda Item	Description
7.1	AUASB Technical Work Program Update Summary

A large, stylized graphic of the AUASB logo, which is a white hexagon with the letters 'AUASB' in bold black text. The hexagon is set against a background of a blue and purple digital pattern with binary code (0s and 1s) and faint, translucent images of bar charts and line graphs. The entire graphic is tilted slightly to the right.

**AUASB**

# AUASB Work Program Update

## February 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.



# 2022-23 AUASB Strategic Priority Areas



# 2022-23 Technical Work Program

## *AUASB outputs / projects delivered to date*

- AUASB Digital Standards Portal Update
- Joint submission on ISSB Exposure Drafts
- GS 003 – Update of AFSL Guidance Statement
- Technology PAG – Data Reliability Guidance
- AICD / AUASB Audit Committee Publication on the periodic review of external auditors
- ANCAAR-AUASB Regulation Workshop and Research Report
- IAASB Submission on PIE/Listed Entity proposed audit report amendments
- AUASB Stakeholder Forums
- AUASB Chair response to latest ASIC Inspection Report
- *AUASB Sustainability Assurance Updates*
- *AUASB Agenda Consultation Process*
- *Research Report Qualitative interviews of Audit Committee Chairs on perceptions of Audit Quality*
- *Update of AUASB Domestic Standards for revised QM Standards*
- *AUASB Technology Update*
- *LCE Group Audits Exposure Draft*



# 2022-23 Technical Work Program

## *Key AUASB outputs / projects in progress*

- KAM Reporting beyond Listed Entities #
- GS 023 - Engagement Leader Guidance for Public Sector auditors #
- Update of ASA 700 for AASB 101 changes #
- Update of GS 019 *Auditing Fundraising Revenue of Not-for-Profit Entities* #
- ISA 500 Audit Evidence - AUASB ED & Submission #
- Review Legislative drafting of assurance requirements (with Office of Parliamentary Counsel)
- Upload of AUASB Guidance Statements to Standards Portal
- Post Implementation Review of ASAE 3500 *Performance Engagements*
- AUASB response to 2024-2027 IAASB Strategy and Work Plan #
- Review of GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* #

# Included on March 2023 AUASB Agenda



# 2022-23 Technical Work Program

## *Outputs / projects yet to commence or paused*

- ASA 600 Standard & Implementation Support
- AUASB outreach on ISA 570 Going Concern ED
- New Review Engagement Guidance for NFPs
- Update of APRA related Guidance Statements
- Audit Engagement Related Disclosures (with AASB)
- Service performance Reporting Assurance (with AASB)
- ASQM 1 – Moderation and Remediation
- ASQM 1 – Technology Considerations
- LCE Standard – AU applicability and implementation



# 2022-23 Technical Work Program

## *IAASB Projects*

- ISA 570 - Going Concern
- ISA 240 - Fraud
- Separate Standard for the Audit of Less Complex Entities
- Proposed ISSA 5000 on Sustainability
- Update of IAASB Standards for IESBA PIE & Listed Entity Definition
- Evaluate proposed changes to the audit report in IAASB Projects



# IAASB Strategy and Work Plan

## IAASB Proposed Timeline – 2022 & 2023 (for AUASB information purposes)

Project	Standard	2022				2023											
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Audit Evidence	ISA 500	ED ISA Approval															
Audits of LCEs (IAASB)	ISA for LCEs				Part 10 - ED Approval												
IAASB Workplan						Workplan consultation											
Going Concern	ISA 570							ED-ISA Approval									
Fraud	ISA 240													ED-ISA Approval			
Sustainability Assurance	ISSA 5000													ED-ISSA Approval			
PIE Track 2	ISAs										ED-ISA Approval						

*We are here*

# 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

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## AUASB Agenda Paper

<b>Title:</b>	Public Sector Audit Issues: Engagement Leader Guidance (Approval – Updated GS023)	<b>Date:</b>	15 March 2023
<b>ATG Staff:</b>	Johanna Foyster	<b>Agenda Item:</b>	8

### Recommendations and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
<b>Question 1</b>	<p>Does the AUASB support the proposed new ASA 220 supplementary application and explanatory guidance (see <b>Agenda Item 8.1</b>), to be included as paragraphs 130 to 184 of the revised AUASB Guidance Statement GS 023 <i>Special Considerations – Public Sector Engagements</i> (GS 023) (see <b>Agenda Item 8.2</b>)?</p> <p><i>Note: AUASB Members are not required to review paragraphs 1-129 which have been considered and approved by the Board at meetings held in December 2021 and June 2022. These paragraphs have not been amended.</i></p>	That the AUASB approve to issue the updated version of GS 023 included in <b>Agenda Item 8.2</b>

### Background and Previous Discussions on Topic

1. The AUASB's Public Sector Audit Issues Project is an ongoing AUASB Strategic Project with the objective to develop and issue guidance that is specifically targeted to address the needs of public sector auditors.
2. GS 023 will be incrementally updated to address issues identified in the project plan, as well as any further emerging issues that may arise in applying AUASB Standards to public sector engagements.
3. To date, the AUASB has developed and issued, in consultation with its Public Sector Audit Issues Project Advisory Group (PAG)<sup>1</sup>, guidance related to ASA 210 *Agreeing the Terms of Audit Engagements* (December 2021) and ASA 570 *Going Concern* (June 2022).
4. The third priority identified in the PAG's Terms of Reference is to provide guidance to address challenges identified in applying the [ASA 220 Quality Management for an Audit of](#)

<sup>1</sup> The PAG is made up of senior representatives from Offices of Australian Auditors-General of all jurisdictions in Australia and chaired by the Deputy Chair of the AUASB.

[a Financial Report and Other Historical Financial Information](#) definition of 'Engagement Partner' in the public sector.

5. In July 2022, Members of the PAG were requested to:
  - a) identify the issues that presented challenges in applying the ASA 220 definitions of 'Engagement Partner', 'partner' and 'firm' in their jurisdiction;
  - b) provide information to show how the issues were being dealt with in their jurisdiction (policies, procedures and guidance); and
  - c) consider whether the revised ASA 220 addressed any of the concerns raised.
6. The PAG met in August 2022 to consider an Issues Paper prepared by AUASB Staff based on the PAG feedback provided, and to agree on the key issues to be addressed by the proposed new GS 023 guidance.
7. The PAG met in October 2022 to consider a first Draft of the proposed new guidance prepared by AUASB Staff. At the meeting, PAG members requested:
  - a) amendments to make the guidance more scalable to cater for the different scenarios that may present in the different jurisdictions in Australia due to differences in audit legislation and audit delivery models; and
  - b) further guidance to clarify the Signing Officer's<sup>2</sup> role and responsibilities for managing and achieving quality on an audit engagement in circumstances where another individual (in-house Audit Office employee or contracted Audit Service Provider)<sup>3</sup> has been assigned responsibility for the audit engagement and its performance in practice.
8. The AUASB received updates on the project at its September 2022 ([Agenda Item 6](#)) and November 2022 ([Agenda Item 6](#)) meetings. For further background on the project and the key issues to be addressed by the project, refer to Agenda Item 6 of the September 2022 AUASB meeting.

## Matters for Discussion and ATG Recommendations

### *Finalising the proposed new guidance*

9. Subsequent to the October 2022 PAG meeting, AUASB Staff have worked with individual Audit Offices to resolve remaining issues.
10. AUASB Staff prepared an updated Draft to respond to PAG feedback from the October 2022 PAG meeting, which was shared with the PAG in late December 2022 for comment by 25 January 2023.
11. PAG members were requested, in addition to their own review, to also seek feedback on the Draft guidance from their respective Auditors-General, to ensure all Auditors-General were fully informed of the content and intent of the proposed new guidance and comfortable that the proposed new guidance would not create additional obligations over and above that already required under ASA 220.

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<sup>2</sup> The Auditor-General (the appointed statutory auditor) or individual authorised to sign and issue the auditor's report on behalf of the Auditor-General.

<sup>3</sup> Referred to as the 'Engagement Leader' in the Guidance Statement.

12. The PAG met on 1 February 2023 to discuss remaining issues and to finalise the proposed guidance.
13. A final fatal flaw review of the proposed new guidance was sent to members of the PAG on 9 February 2023. The final version of the guidance received universal support, with no further changes deemed necessary, and this version is provided to AUASB members for approval at **Agenda Item 8.1**.

### *Purpose of guidance*

14. Auditor-General Offices across different jurisdictions in Australia adopt a range of scenarios when conducting audit engagements in the public sector. This is usually driven by the applicable legislative mandate and chosen audit delivery model applied by each office (for example, whether external audit service providers form part of the Audit Office engagement team or not). Each Audit Office will work within any delegation or authorisation clauses provided within their legislation to establish policies or procedures that ensure the objectives of ASA 220 relating to quality management at the engagement level is achieved.
15. The intent of the guidance is not to prescribe to Audit Offices how the requirements of ASA 220 are to be addressed, but rather to aid Audit Offices in providing a pathway to demonstrate that they are complying with the requirements of ASA 220 — irrespective of the model they are operating under or any internal arrangements. The proposed guidance is intended to support each Audit Office to work within their legislation to establish policies or procedures that would set out how the individual signing the auditor's report will obtain the necessary internal assurances that the objectives of ASA 220 relating to quality management at the engagement level has been achieved.

### **Next steps/Way Forward**

16. Once approved by the Board, the updated GS 023 will be published on the AUASB website (March 2023).
17. As the updated GS 023 is primarily applicable to public sector auditors, a broad-based communication plan targeting all AUASB stakeholders is not deemed necessary. Instead, standard announcements about the release of the updated GS will be included on the AUASB website and LinkedIn account, and AUASB Technical staff will communicate directly with AUASB Public Sector Project Advisory Group members to ensure the updated guidance is made available to relevant public sector auditors and determine what additional implementation materials should be developed.

### **Materials Presented**

Agenda Item	Description
8.1	Proposed new ASA 220 Engagement Leader guidance (to be included as paragraphs 130-184 of the updated GS 023)
8.2 (*SP)	Full version of Revised GS 023 (updated to include the new ASA 220 Engagement Leader guidance - see paragraphs 130-184)

\*SP: AUASB Supplementary Papers Pack

## ***Auditing Standard ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information****

### **Application**

1. This section of the GS provides supplementary application and other explanatory material in relation to selected issues identified as presenting challenges in applying the ASA 220<sup>1</sup> definition of ‘Engagement Partner’ in the public sector. It does not contain any further requirements for the conduct of the audit. It is to be read and applied together with ASA 220.

### **Introduction**

2. The term Engagement Partner is defined in ASA 220 and ASQM 1<sup>2</sup> as “the partner or other individual, appointed by the firm, who is responsible for the audit engagement and its performance, and for the auditor’s report [emphasis added] that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.” In accordance with these Standards<sup>3</sup>, ‘Engagement Partner’, ‘partner’ and ‘firm’ is to be read as referring to their public sector equivalents where relevant.
3. In the public sector, an Auditor-General, or other suitably qualified individual appointed on behalf of the Auditor-General,<sup>4</sup> may act in a role equivalent to that of the Engagement Partner with overall responsibility for a public sector audit.<sup>5</sup>
4. Challenges may arise in relation to some aspects of ASA 220 in the public sector when the individual assigned responsibility for the audit engagement and its performance in practice, is not also the individual responsible for signing and issuing the auditor’s report. ASA 220 does not specify that the Engagement Partner has to sign the auditor’s report; nor does ASA 700<sup>6</sup> require this. Furthermore, ASA 700 does not include specific requirements as to the role and responsibilities of the individual responsible for signing and issuing the auditor’s report.

### **Scope of ASA 220 Supplementary Guidance**

5. This section of the GS provides supplementary guidance on:
  - (a) the concept of Engagement Partner in the public sector (ASA 220, paragraph 12(a)); and
  - (b) the allocation of responsibilities under ASA 220 when the individual who is assigned responsibility for the audit engagement and its performance in practice, is not also the individual responsible for signing and issuing the auditor’s report.
6. Different scenarios may apply in the different jurisdictions in Australia depending on the applicable legislative mandate and chosen audit delivery model (for example, whether external audit service providers form part of the engagement team or not). Each Audit Office will work within any delegation or authorisation clauses provided within their legislation to establish policies or procedures to ensure the objectives of ASA 220 are achieved.
7. Depending on the legislative mandate in each jurisdiction, an Auditor-General may not be required to perform the audit of a public sector entity. Instead, the public sector entity may engage a private sector auditor or firm to perform the audit. In these circumstances, the

<sup>1</sup> ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* (March 2021).

<sup>2</sup> ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*.

<sup>3</sup> ASA 220 and ASQM 1, footnote 3.

<sup>4</sup> An Auditor-General may or may not be a qualified accountant. Under section 1281 of the *Corporations Act 2001*, a person who holds office as the Auditor-General, or a person to whom the Auditor-General delegates the function or the power to conduct an audit, is taken to be registered as an auditor under the Act.

<sup>5</sup> ASQM 2 *Engagement Quality Reviews*, paragraph A11 (amended).

<sup>6</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*.

engaged auditor or firm has overall responsibility for the audit engagement and its performance, and will sign and issue the auditor's report. These types of engagements fall outside the scope of this section, as ASA 220 is fit for purpose in these circumstances.

## Definitions

8. For the purpose of this GS, the following terms have the meanings attributed below:

- (a) **Audit Office of the Auditor-General (Audit Office)** – Public sector equivalent of 'firm' (as defined in 8(h) below). Auditor-General and staff employed by the Auditor-General to perform audit engagements or audit procedures for or on behalf of the Auditor-General. The Audit Office may be assisted by an audit service provider (as defined in 8(c) below) engaged to perform audit engagements or audit procedures for or on behalf of the Auditor-General.<sup>7</sup>
- (b) **Auditor-General** – the individual appointed as the Auditor-General (the appointed statutory auditor) or acting as such.
- (c) **Audit service provider**<sup>8</sup> – Private sector auditor or firm who has been contracted to perform an audit engagement or audit procedures for or on behalf of the Auditor-General.
- (d) **Engagement Leader** – In the context of this GS, the term 'Engagement Leader' is used to refer to the individual assigned responsibility for the audit engagement and its performance in practice, and who is either the Signing Officer (as defined in 8(i) below) or who makes recommendations to the Signing Officer in respect of the audit opinion. The role of Engagement Leader may be undertaken by an individual within the Audit Office or an individual engaged either directly, or indirectly through their firm, as audit service provider. Individual Audit Offices may use different titles to refer to the 'Engagement Leader' role.
- (e) **Engagement Partner** – Defined in ASQM 1/ASA 220<sup>9</sup> as "the partner or other individual, appointed by the firm, who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body." ASA 220 requires the Engagement Partner shall take overall responsibility for managing and achieving quality on the audit engagement.<sup>10</sup>

In accordance with ASQM 1/ASA 220<sup>11</sup>, 'Engagement Partner', 'partner', and 'firm' are to be read as referring to their public sector equivalents where relevant.

In the context of this GS, the term 'Engagement Partner', as defined in ASQM 1/ASA 220, could be:

- i. the Auditor-General; or
- ii. an employee of the Audit Office; or
- iii. an audit service provider (contracted private sector auditor or individual assigned responsibility for the engagement by a contracted firm)

<sup>7</sup> In applying ASA 220, paragraph A17, individuals from audit service providers who perform audit procedures on the audit engagement will form part of the Audit Office engagement team.

<sup>8</sup> For the purpose of this GS, the ASQM 1 (paragraph 16(v)) definition of 'service provider' has been modified for application to the public sector.

<sup>9</sup> ASQM 1, paragraph 16(c) and ASA 220, paragraph 12(a).

<sup>10</sup> See ASA 220, paragraphs 13 and 40.

<sup>11</sup> ASA 220 and ASQM 1, footnote 3.

The concept of ‘Engagement Partner’ in the Public Sector, is further explained in paragraphs 9-18 of this GS.

- (f) **Engagement Quality Review (EQR)** – Defined in ASQM 1/ASQM 2/ASA 220<sup>12</sup> as “an objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.”
- (g) **Engagement team** – Defined in ASQM 1/ASA 220<sup>13</sup> as “all partners and staff [or, in the context of the public sector, the Engagement Leader and/or Signing Officer and Audit Office staff] performing the audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an auditor’s external expert.” In applying ASA 220<sup>14</sup>, individuals from audit service providers who perform audit procedures on the audit engagement will form part of the Audit Office engagement team.
- (h) **Firm** – Defined in ASQM 1/ASA 220<sup>15</sup> as “a sole practitioner, partnership or corporation or other entity of assurance practitioners, or public sector equivalent.” For the public sector equivalent of ‘firm’, see ‘Audit Office’ as defined in 8(a) above).
- (i) **Signing Officer**<sup>16</sup> – In the context of this GS, the term ‘Signing Officer’ is used to refer to the Auditor-General (the appointed statutory auditor) or individual authorised to sign and issue the auditor’s report on behalf of the Auditor-General. The Signing Officer may or may not be the Engagement Leader assigned responsibility for the audit engagement and its performance in practice.

## Guidance

### Concept of ‘Engagement Partner’ in the Public Sector (ASA 220, paragraph 12(a))

- 9. In Australia, Commonwealth, State or Territory Auditors-General are responsible for undertaking the majority of public sector audit engagements. Under audit legislation applicable in each jurisdiction, power is vested in the Auditor-General as the person appointed or authorised by a legislature for the purpose of exercising the functions and powers to conduct public sector audits. Under the Corporations Act<sup>17</sup>, only the person who holds office as the Auditor-General, or a person to whom the Auditor-General delegates the function or the power to conduct an audit, is taken to be registered as an auditor under the Act. As statutory auditor, the Auditor-General is ultimately responsible (accountable) to the legislature.
- 10. For practical reasons, due to the nature and magnitude of statutory responsibilities, individual Auditors-General are unlikely to have the capacity to personally discharge all the duties and functions required to be performed in their name and for which they are held accountable.
- 11. Depending on the legislative mandate applicable in the jurisdiction, an Auditor-General may be able to:

<sup>12</sup> ASQM 1, paragraph 16(d); ASQM 2, paragraph 13(a); and ASA 220, paragraph 12(b).

<sup>13</sup> ASQM 1, paragraph Aus 16.4 and ASA 220, paragraph Aus 12.1. This definition has been modified for application to the public sector. For further guidance on individuals included/excluded from the definition of engagement team, see ASA 220, paragraphs A15-A25. ASA 220 guidance, for example, clarifies that the engagement quality reviewer, and any other individuals performing the EQR, are not members of the engagement team.

<sup>14</sup> ASA 220, paragraph A17.

<sup>15</sup> ASQM 1, paragraph 16(i) and ASA 220, paragraph 12(e).

<sup>16</sup> Individual Audit Offices may use different titles to refer to the individual authorised to sign the auditor’s report.

<sup>17</sup> See section 1281 of the *Corporations Act 2001*. Section 1281(2) of the Act deems a person to whom the Auditor-General delegates the function of conducting an audit or the power to conduct an audit, to be taken to be a registered company auditor, but only for the purposes of applying Chapter 2M to the audit. For any audits performed outside of Chapter 2M, only the Auditor-General is taken to be registered as an auditor.

- (a) delegate responsibilities to an individual where that individual may be an Audit Office employee or an audit service provider; and/or
  - (b) authorise an individual (Audit Office employee or an audit service provider) or firm (audit service provider) to undertake audit functions under the direction of the Auditor-General.
- 12. In managing quality at the engagement level, ASA 220<sup>18</sup> permits the Engagement Partner to assign the design or performance of some procedures, tasks or actions to appropriately skilled or suitably experienced members of the engagement team to assist the Engagement Partner. In such circumstances, ASA 220<sup>19</sup> requires that the Engagement Partner shall continue to take overall responsibility for managing and achieving quality on the audit engagement.
- 13. Where the individual fulfilling the role of Engagement Leader in practice is also signing the audit opinion, practical application of ASA 220 should not be problematic and supplementary guidance provided in this section of the GS may not be relevant.
- 14. However, there may be circumstances where the Engagement Leader does not have delegation or authorisation to sign the audit opinion. This may be the case where the Auditor-General:
  - (a) personally signs the auditor's report;
  - (b) legally delegates their authority to sign the auditor's report to another individual (delegate signs in their own right); or
  - (c) authorises another individual to sign the auditor's report for and on behalf of the Auditor-General.
- 15. In practice, this may result in different scenarios such as:
  - (a) the Auditor-General fulfilling the role of the Engagement Leader including signing the audit opinion.
  - (b) an Audit Office employee fulfilling the role of the Engagement Leader including signing the audit opinion.
  - (c) an Audit Office employee fulfilling the role of Engagement Leader in practice with the Auditor-General signing the audit opinion.
  - (d) an Audit Office employee fulfilling the role of Engagement Leader in practice with another Audit Office employee signing the audit opinion.
  - (e) an audit service provider fulfilling the role of the Engagement Leader in practice with the Auditor-General or Audit Office employee signing the audit opinion.
- 16. Where the Engagement Leader assigned responsibility for the audit engagement and its performance in practice is not also signing the audit opinion, the Engagement Leader performs the assigned Engagement Partner responsibilities for and on behalf of the Signing Officer. For the individual signing the audit opinion to be able to sign and issue the auditor's report, and take overall responsibility for the audit engagement and its performance (including taking overall responsibility for managing and achieving quality on the engagement as required in paragraph 13 of ASA 220), this individual may need to undertake additional procedures and/or obtain additional information from the Engagement Leader (and other members of the engagement team) and from the Audit Office's system of quality management.<sup>20</sup>

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<sup>18</sup> See ASA 220, paragraphs 9 and 15.

<sup>19</sup> ASA 220, paragraphs 13 and 40.

<sup>20</sup> See ASA 220, paragraphs 9 and 15.

17. Audit Offices generally will have internal policies or procedures in place to respond to different signing arrangements and to clarify the respective leadership roles and responsibilities of the Signing Officer and Engagement Leader to ensure the objectives of ASA 220 are achieved. Audit Office policies or procedures will also typically specify how the Audit Office is expected to assign authority and responsibilities within the Audit Office.
18. Where the Signing Officer and Engagement Leader are not the same individual, the Signing Officer and Engagement Leader typically work collaboratively such that both the Engagement Leader and Signing Officer can be satisfied that the audit has been performed in accordance with the requirements of applicable Auditing Standards<sup>21</sup> and Audit Office policies or procedures.

### **Role and Responsibilities of the Engagement Leader where the Engagement Leader is not the Signing Officer**

19. Where the Engagement Leader assigned responsibility for the audit engagement and its performance in practice is not the Signing Officer for the engagement, Audit Offices may consider clarifying in their policies or procedures:
  - (a) that the Engagement Leader performs any assigned ASA 220 Engagement Partner duties and responsibilities for and on behalf of the Signing Officer;
  - (b) that the Signing Officer remains ultimately responsible, and therefore accountable, for compliance with the requirements of ASA 220; and
  - (c) the required actions to be taken by the Engagement Leader to assist the Signing Officer in complying with their ASA 220 responsibilities, in particular those responsibilities that the Standard explicitly requires the Engagement Partner fulfil in their personal capacity<sup>22</sup> (see paragraph 25 of this GS).
20. For example, to assist the Signing Officer make the determination as required in paragraph 40 of ASA 220 (that is, the 'stand-back' provision – see paragraph 29 of this GS), it may be expected that the Engagement Leader will take steps to assist the Signing Officer in being sufficiently and appropriately involved throughout the audit engagement such that the Signing Officer has the required basis for determining that significant judgements made and the conclusions reached are appropriate, given the nature and circumstances of the engagement. Audit Office policies or procedures may require the Engagement Leader to consider:
  - Inviting the Signing Officer to key planning and closing meetings and other relevant team events (for example, meetings to discuss significant issues pertaining to the audit or the public sector entity).
  - Involving the Signing Officer in agreeing the treatment of significant, complex, or contentious accounting issues, or matters involving significant judgements<sup>23</sup>.
  - Inviting the Signing Officer to key meetings with management and those charged with governance of the public sector entity.
  - Communicating how the Engagement Leader has satisfied themselves that the requirements of ASA 220 have been met.
21. As noted in paragraph 16 of this GS, a Signing Officer may need to obtain information from the engagement team or from the Audit Office's system of quality management to make a required decision or judgement under ASA 220. Audit Office policies or procedures may address the matters required to be communicated to the Signing Officer by the Engagement Leader, including the timing and form of such communication. Communication may be in the form of briefings, internal memorandums, written confirmations and signoffs prepared by the

<sup>21</sup> Auditors-General, depending on their legislative mandate, may be required to conduct public sector engagements in accordance with AUASB Standards or may be required to set their own standards which may incorporate the AUASB Standards.

<sup>22</sup> See ASA 220, paragraphs 9 and A22.

<sup>23</sup> See ASA 220, paragraph A92 for examples of matters commonly expected to involve significant judgements.

Engagement Leader to demonstrate that they have complied with applicable Auditing Standards and Audit Office policies or procedures; that their involvement in the engagement has been sufficient and appropriate throughout; and that the work performed by less experienced members of the engagement team has been directed, supervised and reviewed in accordance with the requirements of ASA 220 and Audit Office policies or procedures. The form and content of such communication will be influenced by the nature and extent of the audit work assigned to the Engagement Leader.

22. Audit Office policies or procedures may include a requirement for the Engagement Leader to communicate matters relevant to the Signing Officer's conclusions about the audit, for example, to provide certain internal assurances and information to assist the Signing Officer in undertaking their final review and to provide clearance for the recommended auditor's report to be signed and issued. This may be in the form of an overall summary memorandum describing the work performed and the results thereof, which may include information and assurances such as:
- Confirmation that the audit has been completed and that the audit file has been reviewed and all issues resolved.
  - Confirmation that relevant ethical requirements, including those related to independence, have been fulfilled<sup>24</sup>.
  - How matters affecting the overall audit strategy and audit plan have been addressed.
  - Significant matters arising on the audit and, in particular, consultation and conclusions on matters that were difficult or contentious.
  - How any differences of opinion have been addressed and resolved.
  - Results of the procedures performed by the engagement team on significant areas of the engagement, including where significant judgements were involved.
  - Notification that the EQR (where appropriate) has been completed.<sup>25</sup>
  - Key financial results/analytics.
  - The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
  - Evidence that the financial report has been reviewed by the Engagement Leader (attach financial report for Signing Officer to review).
  - Confirmation that the financial report complies in all material respects with accounting and financial reporting standards.
  - Evidence that the Management Representation Letter has been reviewed by the Engagement Leader.
  - Confirmation that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.
  - Recommended draft auditor's report and Auditor's Independence Declaration (where applicable) (attach for Signing Officer to review).
  - Significant matters communicated or expected to be communicated to management and those charged with governance or regulatory authorities.
  - Information about instances of non-compliance with laws or regulations.
  - Issues with sector wide implications, or other sensitive issues which may be of interest to the Parliament, Executive Government or the community.
23. In implementing Audit Office policies or procedures applicable to the audit engagement, the Engagement Leader exercises professional judgement and is influenced by the nature and circumstances of the engagement and any changes during the engagement, to determine

<sup>24</sup> See ASA 220, paragraphs 21 and A47-A49.

<sup>25</sup> See ASA 220, paragraph A104.

whether to design and implement responses beyond those set forth in policies or procedures, to meet the objectives of ASA 220.

### **Role and Responsibilities of the Signing Officer where the Signing Officer is not also the Engagement Leader in practice**

24. Where the Signing Officer is not also the Engagement Leader in practice, the Signing Officer may have a reduced involvement in the audit due to the role of the Engagement Leader. In these circumstances, the Signing Officer may be able to rely on the Engagement Leader to perform certain key duties and responsibilities that may have been assigned to the role in accordance with the requirements of ASA 220 and Audit Office policies or procedures.
25. ASA 220<sup>26</sup> explicitly identifies requirements or responsibilities that need to be fulfilled by the Engagement Partner personally, and clarifies that the Engagement Partner may need to obtain information from the firm (Audit Office) or from other members of the engagement team, to fulfil the requirement (that is, to personally make the required decision or judgement).
26. To enable the Signing Officer to comply with the requirements of ASA 220, Audit Offices may consider specifying in their policies or procedures:
  - (a) the requirements under ASA 220 that expressly needs to be fulfilled by the Signing Officer in their personal capacity;
  - (b) the information to be provided to the Signing Officer to enable them to make the required decisions or judgements expressly required to be fulfilled under ASA 220 in their personal capacity. This will include information compiled by the Engagement Leader and relevant information from the Audit Office's system of quality management;
  - (c) the additional procedures to be undertaken by the Signing Officer to obtain the necessary assurances that the Engagement Leader has completed their assigned duties and responsibilities in accordance with applicable Auditing Standards, Audit Office policies or procedures and applicable legal and regulatory requirements, and can be relied upon by the Signing Officer; and
  - (d) the minimum additional procedures to be undertaken by the Signing Officer, to enable the Signing Officer to take overall responsibility for:
    - i. the audit engagement and its performance (including overall responsibility for managing and achieving quality on the audit engagement); and
    - ii. the auditor's report being appropriate in the circumstances, and to sign and issue the auditor's report.
27. In circumstances where the Signing Officer for the engagement is not also the Engagement Leader in practice, Audit Offices may consider clarifying in their policies that, in applying ASA 220<sup>27</sup>, the Signing Officer continues to be responsible overall for managing and achieving quality on the audit engagement by:
  - (a) taking responsibility for creating an environment for the engagement that demonstrates the Audit Office's commitment to quality and expected behaviour of engagement team members;
  - (b) being sufficiently and appropriately involved throughout the engagement in accordance with the requirements of ASA 220 (see paragraphs 28-30 below); and

<sup>26</sup> See ASA 220, paragraphs 9 and A22.

<sup>27</sup> See ASA 220, paragraph 13-15, A28-A37 and A80.

- (c) taking responsibility for the direction and supervision of the engagement team and the review of their work in accordance with the requirements of ASA 220 (see paragraphs 31-38 below).
28. Being sufficiently and appropriately involved throughout the audit engagement may be demonstrated by the Signing Officer in different ways, including, for example:
- being briefed by the Engagement Leader at appropriate times during the audit engagement;
  - meetings or calls with the Engagement Leader to discuss identified and assessed risks, issues, findings and conclusions; and
  - reviewing key audit documentation at appropriate points in time during the audit engagement.
29. ASA 220<sup>28</sup> requires that, prior to dating the auditor's report, the Engagement Partner perform a 'stand-back' to determine whether their involvement has been sufficient and appropriate throughout the audit engagement to provide the basis for determining that the significant judgements made, and the conclusions reached, are appropriate.
30. The Audit Office's policies or procedures may specify the nature, timing and extent of the Signing Officer's involvement and any reliance that may be placed by the Signing Officer on the Engagement Leader's involvement throughout the engagement. In addition to adhering to Audit Office policies or procedures, the Signing Officer applies professional judgement to tailor the nature, timing and extent of their involvement, taking into consideration the facts and circumstances of the engagement, and considering, for example, the factors listed in paragraphs A91-A97 of ASA 220.
31. Under ASQM 1, Audit Offices are required to establish policies or procedures that address the nature, timing and extent of the direction and supervision of engagement teams and the review of their work. Where direction, supervision and review have been assigned to an Engagement Leader in practice, Audit Offices may consider clarifying in their policies or procedures:
- (a) the respective roles and responsibilities of the Signing Officer and Engagement Leader for direction, supervision and review; and
  - (b) the information to be provided by the Engagement Leader to the Signing Officer to enable the Signing Officer, as required under ASA 220<sup>29</sup>, to determine that the nature, timing and extent of direction, supervision and review is:
    - i. planned and performed in accordance with the Audit Office's policies or procedures, applicable Auditing Standards and applicable legal and regulatory requirements; and
    - ii. responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team.
32. The approach to direction, supervision and review will vary from one engagement to the next, taking into account the nature and circumstances of the engagement. The Signing Officer exercises professional judgement in tailoring their approach for each engagement, taking into consideration the factors listed in paragraphs A94-A97 of ASA 220.<sup>30</sup>
33. In applying ASA 220<sup>31</sup>, the Signing Officer is required to review key audit documentation at appropriate points in time throughout the audit engagement. ASA 220 does not require the

<sup>28</sup> See ASA 220, paragraph 40 (with application guidance in paragraphs A113-A116). Also refer to paragraph 13 (with application guidance in paragraphs A28-A37).

<sup>29</sup> ASA 220, paragraphs 30, A80-A84 and A94-A97.

<sup>30</sup> See ASA 220, paragraphs A80-A83.

<sup>31</sup> See ASA 220, paragraph 31 and A90-A93.

Engagement Partner to review all audit documentation but to exercise professional judgment in considering, for example, significant matters and areas of significant judgements made by the engagement team. Such matters are generally considered by the Engagement Leader in consultation with the Signing Officer as appropriate. Audit Office policies or procedures may also specify certain matters that are commonly expected to involve significant judgements. Depending on the nature and circumstances of the engagement, the Signing Officer may be able to rely on the Engagement Leader's review of 'standard' significant judgements and risks identified by the engagement team, and the Signing Officer will likely focus on the critical or 'non-standard' matters, especially those relating to potential qualifications, difficult or contentious issues, significant risks and other areas the Engagement Leader has identified as important.

34. In applying ASA 220,<sup>32</sup> the Signing Officer is required to determine, on or before the date of the auditor's report, through review of audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. Information that may be relevant to the Signing Officer's evaluation will depend on the facts and circumstances of the audit engagement, and may include written confirmations and sign-offs prepared by the Engagement Leader.
35. For example, the Signing Officer may be able to place reliance on the overall summary memorandum prepared by the Engagement Leader (see paragraph 22 above) as a basis for determining whether:
  - the Engagement Leader has completed their work consistent with applicable Auditing Standards and Audit Office policies or procedures;
  - the Engagement Leader and other senior members of the engagement team have been suitably involved in the planning and performance of the audit;
  - EQR processes have been satisfactorily completed (where required);<sup>33</sup>
  - consultation and conclusions on difficult or contentious matters were appropriate and in accordance with Audit Office policies or procedures;<sup>34</sup>
  - any differences of opinion have been addressed and resolved in accordance with Audit Office policies or procedures;<sup>35</sup>
  - relevant ethical requirements, including those related to independence, have been fulfilled;<sup>36</sup>
  - reasonable assurance has been obtained whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and that the auditor's report to be issued will be appropriate in the circumstances.<sup>37</sup>
36. Where the Signing Officer places reliance on the overall summary memorandum prepared by the Engagement Leader (see paragraph 22 of this GS), this does not negate the requirement of paragraph 40 of ASA 220 for the Signing Officer to be sufficiently and appropriately involved throughout the audit (see paragraphs 20 and 28-30 of this GS).
37. In applying ASA 220<sup>38</sup>, the Signing Officer is also required, prior to dating the auditor's report, to review:
  - the financial report; and

<sup>32</sup> See ASA 220, paragraphs 32 and A90-A94. Also see ASA 700, paragraph 11.

<sup>33</sup> See ASA 220, paragraphs 36(d), 41(c) and A104.

<sup>34</sup> See ASA 220, paragraph 35.

<sup>35</sup> See ASA 220, paragraph 38(c).

<sup>36</sup> See ASA 220, paragraphs 21 and A47-A48.

<sup>37</sup> See ASA 220, paragraphs 32-33 and ASA 700, paragraphs 11-15.

<sup>38</sup> See ASA 220, paragraph 33 and ASA 700, paragraphs 11-15.

- the recommended draft auditor's report, including, if applicable, the description of the key audit matters and related audit documentation.
38. The Signing Officer may seek to review other information, and/or request the Engagement Leader to perform additional audit procedures, if the Signing Officer considers it appropriate in the circumstances, to enable them to assume overall responsibility for the audit engagement and the appropriateness of the auditor's report.
39. ASA 220<sup>39</sup> provides guidance regarding documentation of the performance of the requirements of the Standard, including examples of different ways the Signing Officer's involvement throughout the engagement may be evidenced.

## **Engagements performed by Audit Service Providers for or on behalf of the Auditor-General**

40. An Auditor-General may be able to engage a private sector auditor or firm under contract, to perform audit engagements or audit procedures. Contracted auditors are 'service providers' under ASQM 1. ASQM 1<sup>40</sup> includes requirements and related guidance to address the additional responsibilities and considerations when the Audit Office uses resources from a service provider.
41. In applying ASQM 1, Audit Offices will have policies and procedures in place to manage quality in respect of engagements performed by audit service providers on behalf of the Auditor-General.
42. ASQM 1<sup>41</sup> explains that, notwithstanding that an Audit Office may use resources from a service provider in the performance of engagements, the Audit Office remains responsible for its system of quality management.
43. As responsibility for quality remains with the Audit Office (statutory auditor), Audit Offices may consider establishing policies or procedures, for example, to:
- Confirm that contracted audit service providers have sufficient personnel with the appropriate competencies and capabilities, including sufficient time, to deliver assigned work in accordance with contractual arrangements.
  - Confirm that contracted audit service providers meet the relevant ethical standards, including independence, on appointment and periodically thereafter.
  - Identify and resolve potential conflicts.
  - Ensure contracted-out engagements are included within the scope of the Audit Office's quality management arrangements.
  - Review all audit deliverables to be issued to those charged with governance.
44. Although responsibility for quality remains with the Audit Office (statutory auditor) for contracted-out engagements, this does not absolve the contracted audit service provider of responsibility for their system of quality management within their firms in accordance with ASQM 1. In practice, the Audit Office (statutory auditor) may decide to request an audit service provider to provide assurance regarding the system of quality management within their firm or, alternatively, may undertake procedures to confirm that an audit service provider's system of quality management is working effectively.
45. In applying ASA 220<sup>42</sup>, individuals from audit service providers who perform audit procedures on the audit engagement to assist the Audit Office will form part of the Audit

<sup>39</sup> See ASA 220, paragraphs A114 and A117-A118.

<sup>40</sup> For example, see paragraphs 29(b), paragraph 32(h), 33(d), 37(f), A65, A105-A108, A113, A148 and A172.

<sup>41</sup> See ASQM 1, paragraphs 11 and A105.

<sup>42</sup> See ASA 220, paragraph A17.

Office engagement team. ASA 220<sup>43</sup> provides guidance on the application of policies and procedures when the engagement team includes individuals who are from another firm. ASA 220<sup>44</sup> notes that ASA 600<sup>45</sup>, adapted as necessary in the circumstances, may provide a useful point of reference when the engagement team includes individuals from a firm external to the Audit Office in the performance of engagements.<sup>46</sup>

46. The Auditor-General, or Audit Office employee delegated authority to sign and issue the auditor's report on behalf of the Auditor-General, will sign and issue the statutory auditor's report. Audit legislation may allow for the Signing Officer role to be delegated to an audit service provider (private sector auditor or audit firm partner).
47. As explained in paragraphs 9-18 of this GS, the Signing Officer remains ultimately responsible, and therefore accountable, for the audit engagement and its performance, and for the auditor's report that is issued. This includes taking overall responsibility for managing and achieving quality on the engagement in accordance with paragraph 13 of ASA 220.
48. The contracted audit service provider performs assigned work in accordance with the terms of the contractual arrangement, which will generally set out the respective duties and responsibilities of the contracted Engagement Leader and relevant Audit Office staff. The contracted Engagement Leader has a contractual responsibility to the Audit Office for ensuring that the work delivered meets the expectations as agreed with the Audit Office.
49. The contracted Engagement Leader is responsible for ensuring that work undertaken for and on behalf of the Auditor-General is performed in accordance with applicable Auditing Standards and for managing and achieving quality for the engagement at firm level in accordance with the contract and the audit service provider's own quality management system.
50. The Signing Officer has reduced involvement in the audit due to the involvement of the contracted Engagement Leader. For the Signing Officer to be able to sign and issue the auditor's report, the Signing Officer may need to undertake additional procedures and/or obtain additional information from the contracted Engagement Leader, relevant Audit Office staff and from the Audit Office's system of quality management.
51. There may be circumstances where an outsourced audit has both an Audit Office Signing Officer and an Audit Office employee assigned responsibility for oversight of the outsourced audit engagement and its performance in practice. In these circumstances, the assigned Audit Office Engagement Leader and contracted Engagement Leader perform assigned Engagement Partner duties and responsibilities in accordance with Audit Office policies and procedures and the terms of the contractual arrangement, for and on behalf of the Signing Officer.
52. Audit Offices generally will have internal policies or procedures in place to respond to different arrangements and to clarify the respective leadership roles and responsibilities of the contracted audit service provider, Audit Office Engagement Leader and the Signing Officer, to ensure the objectives of ASA 220 are achieved.
53. The Audit Office may develop policies or procedures to address the form or specific wording of the overall conclusion to be provided by the audit service provider. In some cases, the audit service provider may be required to provide draft deliverables, including a draft auditor's report to the Audit Office.
54. If differences of opinion arise between the audit service provider and the Signing Officer or individuals performing activities within the Audit Office's system of quality management, the

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<sup>43</sup> See ASA 220, paragraphs A23-A25.

<sup>44</sup> See ASA 220, paragraph A1.

<sup>45</sup> ASA 600 *Special Considerations – Audits of a Group Financial Report (including the Work of Component Auditors)*.

<sup>46</sup> Equivalent to the group engagement partner or group auditor's involvement in the audit of a component.

parties shall follow the Audit Office's policies or procedures for dealing with and resolving such differences of opinion.

55. In circumstances where the legislative audit mandate allows for the Engagement Partner role to be fully contracted-out to a private sector auditor or firm, the appointed auditor or individual assigned responsibility for the engagement by an appointed firm, fulfils the role and responsibilities of Engagement Partner in their own right and will be responsible for the audit engagement and its performance, and for the auditor's report that is issued, in accordance with the requirements of ASA 220. In these circumstances, the audit service provider (individual or firm) issues the audit report in their own name, and assumes responsibility for quality.

*Draft*



## AUASB Agenda Paper

<b>Title:</b>	AUASB Amending Standard for AASB 101 update and other changes	<b>Date:</b>	15 March 2023
<b>ATG Staff:</b>	See Wen Ewe	<b>Agenda Item:</b>	9

### Questions for the Board

Question No.	Question for the Board
<b>Question 1</b>	The AUASB is asked to approve proposed ASA 2023-1 and the accompanying Explanatory Statement which makes amendments to ASAs arising from narrow-scope amendments made by the AASB to AASB 101 <i>Presentation of Financial Statements</i> included at <b>Agenda Item 9.1</b> and <b>Agenda Item 9.2</b> .
<b>Question 2</b>	The AUASB is asked to approve proposed amendments in <b>Agenda Item 9.3</b> which makes amendments to other AUASB Standards arising from narrow-scope amendments made by the AASB to AASB 101 <i>Presentation of Financial Statements</i> .

### Background and Previous Discussions on Topic

- 1 At the November 2022 AUASB meeting, the AUASB were provided with an overview of the IAASB project to update the illustrative auditor's reports throughout the ISAs to align relevant terminology with amendments made to IAS 1 *Presentation of Financial Statements*. These amendments, issued by the IASB in February 2021 and adopted by the AASB in March 2021, require entities to disclose their 'material accounting policy information' instead of their 'significant accounting policies'.
- 2 The AUASB approved the draft project plan to develop an amending standard to update the terminology in the example auditor's reports, review reports and engagement letters throughout the suite of AUASB Standards (see [Agenda Item 9 of the November 2022 AUASB Agenda Papers](#)).
- 3 The IAASB has issued a publication [Amendments to IAS 1 and the Impact on the ISAs: Disclosure of Material Accounting Policy Information](#) in November 2022. The IAASB will update illustrative auditor reports throughout the ISAs where the financial statements are prepared by the management of the entity in accordance with IFRSs.

### Matters for Discussion and ATG Recommendations

- 4 The suite of AUASB Standards impacted by the amendments made to AASB 101 include eleven Auditing Standards made under section 336 of the *Corporations Act 2001* and an

Auditing Standard on Review Engagements ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity*.

- 5 Standards made under section 336 of the *Corporations Act 2001* are legislative instruments and can only be amended by another legislative instrument. An “Amending Standard” is a legislative instrument made by the AUASB for the sole purpose of amending another legislative instrument.<sup>1</sup>
- 6 As a result, the ATG has drafted the proposed amendments to:
- (a) the eleven Auditing Standards via an amending standard ASA 2023-1 attached in **Agenda Item 9.1**; and
  - (b) the ASRE 2400 in a tabular format in **Agenda Item 9.3**.
- 7 In November 2022, the Accounting Professional & Ethical Standards Board (APESB) updated APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* as a result of Quality Management Standards. Consequently, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* needs some narrow-scoped changes to align to the revised APES 110 wording. As the amendments to ASA 102 are narrow-scoped, the ATG has packaged<sup>2</sup> the amendments in ASA 2023-1 (see **Agenda Item 9.1**).
- 8 As part of the annual review of AUASB Standards, the ATG is making some editorial corrections in the suite of standards which have been included in the proposed ASA 2023-1 for AUASB’s review and approval.

## Collaboration with NZAuASB

- 9 The ATG collaborated with NZAuASB technical staff on the proposed amendments. The nature of the proposals across Australia and New Zealand are consistent. The NZAuASB has subsequently approved the NZ amending standard at the February 2023 NZAuASB meeting.

## Next steps

- 10 Subject to the AUASB’s approval of **Agenda Item 9.1**, **Agenda Item 9.2** and **Agenda Item 9.3**, the ATG will incorporate feedback received from the AUASB and lodge ASA 2023-1 with the Federal Register of Legislation (FRL).
- 11 After ASA 2023-1 is successfully lodged with the FRL, the ATG will publish ASA 2023-1 on the AUASB website and commence the compilation work of the standards amended by ASA 2023-1.

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<sup>1</sup> See paragraph 198 of the [AUASB Due Process Framework](#).

<sup>2</sup> According to paragraph 209 of the [AUASB Due Process Framework](#), amendments to standards that are sufficiently minor or narrow in scope can be packaged together in one document, even though the amendments are unrelated.

## AUASB Agenda Paper

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### Materials Presented

Agenda Item	Description
9.1	Proposed ASA 2023-1 <i>Amendments to Australian Auditing Standards</i>
9.2	ASA 2023-1 Explanatory Statements
9.3	Impacts arising from the changes in AASB 101 on other AUASB Standards

**2023-1**  
(March 2023)

# **Auditing Standard ASA 2023-1** ***Amendments to Australian Auditing Standards***

Issued by the **Auditing and Assurance Standards Board**

Draft



**Australian Government**

**Auditing and Assurance Standards Board**

## Obtaining a Copy of this Auditing Standard

This Auditing Standard is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

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## PREFACE

### Reasons for Issuing ASA 2023-1

The AUASB issues Auditing Standard ASA 2023-1 *Amendments to Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a non-corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

### Main Features

This Auditing Standard makes amendments to the requirements and application and other explanatory material and appendices of the following Auditing Standards:

ASA 102	<i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> (Issued December 2019 and amended to March 2021)
ASA 210	<i>Agreeing the Terms of Audit Engagements</i> (Issued October 2009 and amended to March 2020)
ASA 510	<i>Initial Audit Engagements – Opening Balances</i> (Issued October 2009 and amended to March 2020)
ASA 570	<i>Going Concern</i> (Issued December 2015 and amended to November 2021)
ASA 580	<i>Written Representations</i> (Issued October 2009 and amended to December 2018)
ASA 600	<i>Special Considerations – Audits of a Group Financial Report</i> (Issued October 2009 and amended to March 2020)
ASA 700	<i>Forming an Opinion and Reporting on a Financial Report</i> (Issued December 2015 and amended to September 2021)
ASA 705	<i>Modifications to the Opinion in the Independent Auditor's Report</i> (Issued December 2015 and amended to June 2020)
ASA 706	<i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i> (Issued December 2015 and amended to June 2020)
ASA 710	<i>Comparative Information–Corresponding Figures and Comparative Financial Reports</i> (Issued October 2009 and amended to November 2021)
ASA 720	<i>The Auditor's Responsibilities Relating to Other Information</i> (Issued December 2015 and amended to March 2020)

The amendments arise from changes made by the Australian Accounting Standards Board (AASB) to AASB 101 *Presentation of Financial Statements*; changes made by the Accounting Professional & Ethical Standards Board (APESB) to APES 110 *Code of Ethics for Professional Accountants* (including *Independence Standards*) and editorial corrections to revise minor inaccuracies, including misspellings and numbering or grammatical matters.

**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 2023-1 *Amendments to Australian Auditing Standards* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

Dated: <TypeHere>

W Edge  
Chair - AUASB

## **Conformity with International Standards on Auditing**

This Auditing Standard has been made for Australian legislative purposes and accordingly there is no equivalent International Standard on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

*Draft*

## **AUDITING STANDARD ASA 2023-1**

### ***Amendments to Australian Auditing Standards***

#### **Application**

1. This Auditing Standard applies to:
  - an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
  - an audit of a financial report, or a complete set of financial statements, for any other purpose.
2. This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

#### **Operative Date**

3. This Auditing Standard is operative for financial reporting periods commencing on or after 1 January 2023.

#### **Introduction**

##### **Scope of this Auditing Standard**

4. This Auditing Standard makes amendments to Australian Auditing Standards. The amendments represent:
  - (a) changes arising from narrow-scope amendments made by the Australian Accounting Standards Board (AASB) to AASB 101 *Presentation of Financial Statements*;
  - (b) changes to ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* arising from amendments made by the Accounting Professional & Ethical Standards Board (APESB) to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*; and
  - (c) editorial corrections to revise minor inaccuracies, including misspellings and numbering or grammatical matters.

#### **Objective**

5. The objective of this Auditing Standard is to make amendments to the following Auditing Standards:
  - (a) ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* (Issued December 2019 and amended to March 2021)
  - (b) ASA 210 *Agreeing the Terms of Audit Engagements* (Issued October 2009 and amended to March 2020)
  - (c) ASA 510 *Initial Audit Engagements – Opening Balances* (Issued October 2009 and amended to March 2020)
  - (d) ASA 570 *Going Concern* (Issued December 2015 and amended to November 2021)

- (e) *ASA 580 Written Representations*  
(Issued October 2009 and amended to December 2018)
- (f) *ASA 600 Special Considerations – Audits of a Group Financial Report*  
(Issued October 2009 and amended to March 2020)
- (g) *ASA 700 Forming an Opinion and Reporting on a Financial Report*  
(Issued December 2015 and amended to September 2021)
- (h) *ASA 705 Modifications to the Opinion in the Independent Auditor's Report*  
(Issued December 2015 and amended to June 2020)
- (i) *ASA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* (Issued December 2015 and amended to June 2020)
- (j) *ASA 710 Comparative Information-Corresponding Figures and Comparative Financial Reports* (Issued October 2009 and amended to November 2021)
- (k) *ASA 720 The Auditor's Responsibilities Relating to Other Information*  
(Issued December 2015 and amended to March 2020)

### **Definition**

6. For the purposes of this Auditing Standard, the meanings of terms are set out in each Auditing Standard and in the *AUASB Glossary*. This Auditing Standard does not introduce new definitions.

### **Amendments to Auditing Standards**

7. Where relevant, this Standard uses underlining, striking out and other typographical material to identify the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Amended paragraphs are shown with deleted text struck through and new text underlined. Ellipses (...) are used to help provide the context within which amendments are made and also to indicate text that is not amended.
8. Where this amending standard inserts or deletes a paragraph or footnote, as a result of that insertion or deletion relevant paragraph numbers, cross-references and footnotes are updated.

### **Amendments to ASA 102**

9. Existing paragraph 5 is amended to read as follows:

For the purposes of this Auditing Standard, the following terms have the meanings attributed below:

- (a) ...
- (c) Engagement quality control reviewer means engagement quality reviewer as defined in ASQM 1.
- ~~(d) Firm means firm as defined in ASQM 1.~~
- (e) Relevant ethical requirements means ethical requirements that apply to the auditor, assurance practitioner, engagement quality reviewer and firm. In Australia, these include the applicable requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, issued by the Accounting Professional & Ethical Standards Board Limited (APESB) ~~in~~ November 2018

incorporating all amendments to December 2022), the applicable provisions of the *Corporations Act 2001* and other applicable law or regulation.

10. Existing paragraph 6 and its heading are amended to read as follows:

**Compliance with Relevant Ethical Requirements (Ref: Para. A1-A7A6)**

The auditor, assurance practitioner, engagement quality reviewer, and firm shall comply with relevant ethical requirements, including those pertaining to independence, when performing audits, reviews and other assurance engagements.

11. Existing paragraph A1 is amended to read as follows:

The auditor, assurance practitioner, engagement quality reviewer, and firm are to have regard to the applicable requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, issued by the ~~Accounting Professional & Ethical Standards Board Limited~~ APESB, which are to be taken into account in determining whether relevant ethical requirements referred to in paragraph 6 of this Auditing Standard have been met. In relation to audits and reviews undertaken in accordance with the *Corporations Act 2001*, the provisions of Division 3 Part 2M.4 of the Act may also apply

12. Existing paragraph A3 is amended to read as follows:

APES 110 provides a conceptual framework that establishes the approach which the auditor, assurance practitioner, engagement quality reviewer and firm are required to apply in order to when identifying, evaluating and addressing threats to compliance with the fundamental principles.

13. Existing paragraph A4 is amended to read as follows:

In the case of audits, reviews and other assurance engagements, APES 110 sets out *Independence Standards*, established by the application of the conceptual framework to threats to independence in relation to those engagements. APES 110 specifies *Independence Standards*, which set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements. The auditor, assurance practitioner, engagement quality reviewer, and firm are required to comply with these standards in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements.

14. Existing paragraph A5 is amended to read as follows:

APES 110 describes independence as comprising both independence of mind and independence in appearance. Independence safeguards the ability to form an assurance conclusion without being affected by influences that might compromise that conclusion. Independence ~~allows~~ enhances the ability to act with integrity, to be objective and to maintain an attitude of professional scepticism.

15. Existing paragraph A6 is deleted and subsequent paragraphs of this Auditing Standard are renumbered and references to these paragraphs are updated accordingly.

16. Existing paragraph A7 is amended to read as follows:

The definition of terms in APES 110 may differ from the definitions of those terms in ~~Australian Auditing AUASB Standards including terms defined in ASQM 1, ASA 200 and ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*.~~

In complying with the requirements of this Auditing Standard, the definitions used in APES 110 apply in so far as is necessary to interpret the ethical requirements of AUASB Standards ~~ASQM 1, ASA 200 and ASA 220~~.

#### **Amendments to ASA 210**

17. Existing Appendix 1 is amended to read as follows:

##### **Example of an Audit Engagement Letter**

...

*[The objective and scope of the audit]*

You<sup>23</sup> have requested that we audit the financial report of ABC Company which comprises the statement of financial position as at 30 June 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 ~~a summary of significant accounting policies~~, and the directors' declaration. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

...

#### **Amendments to ASA 510**

*Amendments to ASA 510 Appendix 1: Illustration 1 and [Aus] Illustration 2A*

18. Illustration 1: An auditor's report containing a qualified opinion due to the inability of the auditor to obtain sufficient appropriate audit evidence regarding opening balances—the financial report is not prepared under the *Corporations Act 2001*, is amended to read as follows:

##### **INDEPENDENT AUDITOR'S REPORT**

...

##### **Qualified Opinion**

We have audited the financial report of ABC Entity (the Entity), which comprises the statement of financial position as at 30 June 20X1, 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 ~~a summary of significant accounting policies~~, and the declaration by those charged with governance.\*

...

19. [Aus] Illustration 2A: An auditor's report containing a qualified opinion due to the inability of the auditor to obtain sufficient appropriate audit evidence regarding opening balances—the financial report is prepared under the *Corporations Act 2001*, is amended to read as follows:

##### **INDEPENDENT AUDITOR'S REPORT**

...

##### **Qualified Opinion**

We have audited the financial report of ABC Company Ltd., (the Company), which comprises the statement of financial position as at 30 June 20X1, 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 ~~a summary of significant accounting policies~~, and the directors' declaration.

...

## **Amendments to ASA 570**

*Amendments to ASA 570 Appendix 2: [Aus] Illustration 1A, [Aus] Illustration 2A, [Aus] Illustration 3A and [Aus] Illustration 4A*

20. [Aus] Illustration 1A: An auditor's report on a financial report of a single listed company prepared in accordance with the *Corporations Act 2001* containing an unmodified opinion when the auditor has concluded that a material uncertainty exists and disclosure in the financial report is adequate, is amended to read as follows:

### **INDEPENDENT AUDITOR'S REPORT**

...

#### **Opinion**

We have audited the financial report of ABC Company Ltd. (the Company), which comprises the statement of financial position as at 30 June 20X1, 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 ~~a summary of significant accounting policies~~, and the directors' declaration.

...

21. [Aus] Illustration 2A: An auditor's report on a financial report of a single listed company prepared in accordance with the *Corporations Act 2001* containing a qualified opinion when the auditor has concluded that a material uncertainty exists and that the financial report is materially misstated due to inadequate disclosure, is amended to read as follows:

### **INDEPENDENT AUDITOR'S REPORT**

...

#### **Qualified Opinion**

We have audited the financial report of ABC Company Ltd., (the Company), which comprises the statement of financial position as at 30 June 20X1, 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 ~~a summary of significant accounting policies~~, and the directors' declaration.

...

22. [Aus] Illustration 3A: An auditor's report on a financial report of a single listed company prepared in accordance with the *Corporations Act 2001* containing an adverse opinion when the auditor has concluded that a material uncertainty exists and the financial report omits the required disclosures relating to a material uncertainty, is amended to read as follows:

### **INDEPENDENT AUDITOR'S REPORT**

...

#### **Adverse Opinion**

We have audited the financial report of ABC Company Ltd., (the Company), which comprises the statement of financial position as at 30 June 20X1, 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 ~~a summary of significant accounting policies~~, and the directors' declaration.

...

23. [Aus] Illustration 4A: An auditor's report on a financial report of a single listed company prepared in accordance with the *Corporations Act 2001* containing a disclaimer of opinion (limitation of scope) when the auditor has been unable to obtain sufficient appropriate audit evidence about the company's ability to continue as a going concern, is amended to read as follows:

**INDEPENDENT AUDITOR'S REPORT**

...

**Disclaimer of Opinion**

We were engaged to audit the financial report of ABC Company Ltd., (the Company), which comprises the statement of financial position as at 30 June 20X1, 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 ~~a summary of significant accounting policies~~, and the directors' declaration.

...

**Amendments to ASA 580**

24. Existing Appendix 1 is amended to read as follows:

**List of Australian Auditing Standards Containing Requirements for Written Representations**

...

ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of the Financial Report* – paragraph ~~40~~<sup>39</sup>

ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* – paragraph ~~17~~<sup>16</sup>

...

ASA 502 *Audit Evidence—Specific Considerations for Litigation and Claims* – paragraph ~~7~~<sup>6</sup>

...

**Amendments to ASA 600**

***Amendments to ASA 600 Appendix 1: Illustration 1 and [Aus] Illustration 1A***

25. Illustration 1: An auditor's report containing a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence, is amended to read as follows:

**INDEPENDENT AUDITOR'S REPORT**

...

### **Qualified Opinion**

We have audited the financial report of ABC Entity and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 20X1, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information ~~a summary of significant accounting policies~~, and the declaration by those charged with governance.\*

...

26. [Aus] Illustration 1A: An auditor's report containing a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence (under the *Corporations Act 2001*), is amended to read as follows:

#### **INDEPENDENT AUDITOR'S REPORT**

...

### **Qualified Opinion**

We have audited the financial report of ABC Company Ltd. (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 20X1, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements including material accounting policy information ~~a summary of significant accounting policies~~, and the directors' declaration.

...

### **Amendments to ASA 700**

*Amendments to ASA 700 Appendix 1: [Aus] Illustration 1A, [Aus] Illustration 2A, Illustration 3 and Illustration 4*

27. [Aus] Illustration 1A: An auditor's report on a financial report of a single listed company prepared in accordance with the *Corporations Act 2001* (a fair presentation framework), is amended to read as follows:

#### **INDEPENDENT AUDITOR'S REPORT**

...

### **Opinion**

We have audited the financial report of ABC Company Ltd. (the Company), which comprises the statement of financial position as at 30 June 20X1, 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 ~~a summary of significant accounting policies~~, and the directors' declaration.

...

28. [Aus] Illustration 2A: An auditor's report on a financial report of a listed company and its subsidiaries (Group) prepared in accordance with the *Corporations Act 2001* (a fair presentation framework), is amended to read as follows:

#### **INDEPENDENT AUDITOR'S REPORT**

...

**Opinion**

We have audited the financial report of ABC Company Ltd. (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 30 June 20X1, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information ~~a summary of significant accounting policies~~, and the directors' declaration.

...

29. Illustration 3: An auditor's report on a financial report of an entity other than a listed entity prepared in accordance with a fair presentation framework, is amended to read as follows:

**INDEPENDENT AUDITOR'S REPORT**

...

**Opinion**

We have audited the financial report of ABC Entity (the Entity), which comprises the statement of financial position as at 30 June 20X1, 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 ~~a summary of significant accounting policies~~, and the declaration by those charged with governance.<sup>#</sup>

...

30. Illustration 4: An auditor's report on a financial report of an entity other than a listed entity prepared in accordance with a general purpose compliance framework, is amended to read as follows:

**INDEPENDENT AUDITOR'S REPORT**

...

**Opinion**

We have audited the financial report of ABC Entity (the Entity), which comprises the balance sheet as at 30 June 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information ~~a summary of significant accounting policies~~, and the declaration by those charged with governance.<sup>#</sup>

...

**Amendments to ASA 705**

*Amendments to ASA 705 Appendix: [Aus] Illustration 1A, [Aus] Illustration 2A, [Aus] Illustration 3A, Illustration 4 and Illustration 5*

31. [Aus] Illustration 1A: An auditor's report containing a qualified opinion due to a material misstatement of the financial report prepared in accordance with the *Corporations Act 2001* (a fair presentation framework), is amended to read as follows:

**INDEPENDENT AUDITOR'S REPORT**

...

**Qualified Opinion**

We have audited the financial report of ABC Company Ltd. (the Company), which comprises the statement of financial position as at 30 June 20X1, 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 ~~a summary of significant accounting policies~~, and the directors' declaration.

...

32. [Aus] Illustration 2A: An auditor's report containing an adverse opinion due to a material misstatement of the group financial report prepared in accordance with the *Corporations Act 2001* (a fair presentation framework), is amended to read as follows:

**INDEPENDENT AUDITOR'S REPORT**

...

**Adverse Opinion**

We have audited the financial report of ABC Company Ltd. (the Company), and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 20X1, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising material accounting policy information ~~a summary of significant accounting policies~~, and the directors' declaration.

...

33. [Aus] Illustration 3A: An auditor's report containing a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence regarding a foreign associate - financial report prepared in accordance with the *Corporations Act 2001* (a fair presentation framework), is amended to read as follows:

**INDEPENDENT AUDITOR'S REPORT**

...

**Qualified Opinion**

We have audited the financial report of ABC Company Ltd., (the Company), and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 20X1, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising material accounting policy information ~~a summary of significant accounting policies~~, and the directors' declaration.

...

34. Illustration 4: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the financial report, is amended to read as follows:

**INDEPENDENT AUDITOR'S REPORT**

...

**Disclaimer of Opinion**

We were engaged to audit the financial report of ABC Entity and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 20X1, the

consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial report, including material accounting policy information ~~a summary of significant accounting policies~~, and the declaration by those charged with governance.<sup>#</sup>

...

35. Illustration 5: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about multiple elements of the financial report, is amended to read as follows:

**INDEPENDENT AUDITOR'S REPORT**

...

**Disclaimer of Opinion**

We were engaged to audit the financial report of ABC Entity (the Entity), which comprises the statement of financial position as at 30 June 20X1, 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 ~~a summary of significant accounting policies~~, and the declaration by those charged with governance.<sup>#</sup>

...

**Amendments to ASA 706**

36. Existing Appendix 3 is amended to read as follows:

**ILLUSTRATION OF AN AUDITOR'S REPORT THAT INCLUDES A KEY AUDIT MATTERS SECTION, AN EMPHASIS OF MATTER PARAGRAPH, AND AN OTHER MATTER PARAGRAPH**

...

**Opinion**

We have audited the financial report of ABC Company Ltd. (the Company), which comprises the statement of financial position as at 30 June 20X1, 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 ~~a summary of significant accounting policies~~, and the directors' declaration.

...

37. Existing Appendix 4 is amended to read as follows:

**ILLUSTRATION OF AN 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**

...

**Qualified Opinion**

We have audited the financial report of ABC Entity (the Entity), which comprises the statement of financial position as at 30 June 20X1, 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 report, including material accounting policy information ~~a summary of significant accounting policies~~, and the declaration by those charged with governance.<sup>#</sup>

...

## **Amendments to ASA 710**

*Amendments to ASA 710 Appendix 1: Illustration 1, [Aus] Illustration 1A, Illustration 2, [Aus] Illustration 2A, Illustration 3 and Illustration 4*

38. Illustration 1: An auditor's report on a financial report, containing a qualified opinion due to a material misstatement of prior period corresponding figures, which impact the current period's financial report, is amended to read as follows:

### **INDEPENDENT AUDITOR'S REPORT**

...

#### **Qualified Opinion**

We have audited the financial report of ABC Entity (the Entity), which comprises the statement of financial position as at 30 June 20X1, 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 ~~a summary of significant accounting policies~~ and the declaration by those charged with governance.\*

...

39. [Aus] Illustration 1A: An auditor's report on a financial report, containing a qualified opinion due to a material misstatement of prior period corresponding figures, which impact the current period's financial report. (under the *Corporations Act 2001*), is amended to read as follows:

### **INDEPENDENT AUDITOR'S REPORT**

...

#### **Qualified Opinion**

We have audited the financial report of ABC Company Ltd., (the Company) which comprises the statement of financial position as at 30 June 20X1, 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 ~~a summary of significant accounting policies~~, and the directors' declaration.

...

40. Illustration 2: An auditor's report on a current period financial report, containing a qualified opinion due to a material misstatement of the prior period corresponding figures, which impact the comparability of the financial report, is amended to read as follows:

### **INDEPENDENT AUDITOR'S REPORT**

...

#### **Qualified Opinion**

We have audited the financial report of ABC Entity (the Entity), which comprises the statement of financial position as at 30 June 20X1, 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 a summary of significant accounting policies, and the declaration by those charged with governance.\*

...

41. [Aus] Illustration 2A: An auditor's report on a current period financial report, containing a qualified opinion due to a material misstatement of the prior period corresponding figures, which impact the comparability of the financial report. (under the *Corporations Act 2001*), is amended to read as follows:

INDEPENDENT AUDITOR'S REPORT

...

**Qualified Opinion**

We have audited the financial report of ABC Company Ltd. (the Company), which comprises the statement of financial position as at 30 June 20X1, statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information a summary of significant accounting policies, and the directors' declaration.

...

42. Illustration 3: An auditor's report on a financial report, contains a reference to the predecessor auditor's prior period auditor's report, is amended to read as follows:

INDEPENDENT AUDITOR'S REPORT

...

**Opinion**

We have audited the financial report of ABC Entity (the Entity), which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information a summary of significant accounting policies, and the declaration by those charged with governance.\*

...

43. Illustration 4: An auditor's report on the current period and prior period's financial reports, containing a qualified opinion due to a material misstatement of the prior period financial report, which impact the current period's financial report, is amended to read as follows:

INDEPENDENT AUDITOR'S REPORT

...

**Qualified Opinion**

We have audited the financial report of ABC Entity (the Entity), which comprises the statement of financial position as at 30 June 20X1 and 20X0, statement of comprehensive income, statement of changes in equity, statement of cash flows for the years then ended, and notes to the financial statements, including material accounting policy information a summary of significant accounting policies, and the declaration by those charged with governance.\*

...

**Amendments to ASA 720**

*Amendments to ASA 720 [Aus] Appendix 3: [Aus] Illustration 1A, [Aus] Illustration 2A, Illustration 3, [Aus] Illustration 4A, [Aus] Illustration 5A, [Aus] Illustration 6A and [Aus] Illustration 7A*

44. [Aus] Illustration 1A: An auditor's report of a listed company, 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, is amended to read as follows:

**INDEPENDENT AUDITOR'S REPORT**

...

**Opinion**

We have audited the financial report of ABC Company Ltd. (the Company), which comprises the statement of financial position as at 30 June 20X1, 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, a ~~summary of significant accounting policies~~ and the directors' declaration.

...

45. [Aus] Illustration 2A: An auditor's report of a listed company 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, is amended to read as follows:

**INDEPENDENT AUDITOR'S REPORT**

...

**Opinion**

We have audited the financial report of ABC Company Ltd., (the Company), which comprises the statement of financial position as at 30 June 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, a ~~summary of significant accounting policies~~ and the directors' declaration.

...

46. 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, is amended to read as follows:

**INDEPENDENT AUDITOR'S REPORT**

...

**Opinion**

We have audited the financial report of ABC Entity (the Entity), which comprises the statement of financial position as at 30 June 20X1, 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, a summary of significant accounting policies and the declaration by those charged with governance.\*

...

47. [Aus] Illustration 4A: An auditor's report of a listed company 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, is amended to read as follows:

INDEPENDENT AUDITOR'S REPORT

...

**Opinion**

We have audited the financial report of ABC Company Ltd., (the Company), which comprises the statement of financial position as at 30 June 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, a summary of significant accounting policies and the directors' declaration.

...

48. [Aus] Illustration 5A: An auditor's report of a listed company 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, is amended to read as follows:

INDEPENDENT AUDITOR'S REPORT

...

**Opinion**

We have audited the financial report of ABC Company Ltd., (the Company), which comprises the statement of financial position as at 30 June 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, a summary of significant accounting policies and the directors' declaration.

...

49. [Aus] Illustration 6A: An auditor's report of a listed company containing a 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 financial report which also affects the other information, is amended to read as follows:

INDEPENDENT AUDITOR'S REPORT

...

**Qualified Opinion**

We have audited the financial report of ABC Company Ltd., (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 20X1, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and

notes to the financial statements, including material accounting policy information, a ~~summary of significant accounting policies~~ and the directors' declaration.

...

50. [Aus] Illustration 7A: An auditor's report of a listed company 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 financial report also affects the other information, is amended to read as follows:

**INDEPENDENT AUDITOR'S REPORT**

...

**Adverse Opinion**

We have audited the financial report of ABC Company Ltd., (the Company), and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 20X1, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements including material accounting policy information a ~~summary of significant accounting policies~~ and other explanatory information, and the directors' declaration.

...

**ASA 2023-1**  
(March 2023)

# **Explanatory Statement**

## ***ASA 2023-1 Amendments to Australian Auditing Standards***

Issued by the **Auditing and Assurance Standards Board**

*Draft*



**Australian Government**

**Auditing and Assurance Standards Board**

## **Obtaining a Copy of this Explanatory Statement**

This Explanatory Statement is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

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*Draft*

## **Reasons for Issuing Auditing Standard ASA 2023-1**

The AUASB issues Auditing Standard ASA 2023-1 *Amendments to Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a non-corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

## **Purpose of Auditing Standard ASA 2023-1 Amendments to Australian Auditing Standards**

The purpose of the Auditing Standard is to make amendments to the requirements and application and other explanatory material and appendices of the following Auditing Standards:

ASA 102	<i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> (Issued December 2019 and amended to March 2021)
ASA 210	<i>Agreeing the Terms of Audit Engagements</i> (Issued October 2009 and amended to March 2020)
ASA 510	<i>Initial Audit Engagements – Opening Balances</i> (Issued October 2009 and amended to March 2020)
ASA 570	<i>Going Concern</i> (Issued December 2015 and amended to November 2021)
ASA 580	<i>Written Representations</i> (Issued October 2009 and amended to December 2018)
ASA 600	<i>Special Considerations – Audits of a Group Financial Report</i> (Issued October 2009 and amended to March 2020)
ASA 700	<i>Forming an Opinion and Reporting on a Financial Report</i> (Issued December 2015 and amended to September 2021)
ASA 705	<i>Modifications to the Opinion in the Independent Auditor's Report</i> (Issued December 2015 and amended to June 2020)
ASA 706	<i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i> (Issued December 2015 and amended to June 2020)
ASA 710	<i>Comparative Information–Corresponding Figures and Comparative Financial Reports</i> (Issued October 2009 and amended to November 2021)
ASA 720	<i>The Auditor's Responsibilities Relating to Other Information</i> (Issued December 2015 and amended to March 2020)

## **Main Features**

This Auditing Standard makes amendments to Australian Auditing Standards. The amendments represent:

- (a) changes arising from narrow-scope amendments made by the Australian Accounting Standards Board (AASB) to AASB 101 *Presentation of Financial Statements*;

- (b) changes to ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* arising from amendments made by the Accounting Professional & Ethical Standards Board (APESB) to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*; and
- (c) editorial corrections to revise minor inaccuracies, including misspellings and numbering or grammatical matters.

### Operative Date

ASA 2023-1 *Amendments to Australian Auditing Standards* is operative for financial reporting periods commencing on or after 1 January 2023.

### Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

### Consultation Process prior to issuing the Auditing Standard

It is the view of the AUASB that ASA 2023-1 do not require public exposure as the amendments are sufficiently narrow in scope as well as editorial corrections to revise minor inaccuracies, including misspellings and numbering or grammatical mistakes.

### Regulatory Impact Statement

A Regulatory Impact Statement (RIA) has been prepared in connection with the preparation of ASA 2023-1 *Amendments to Australian Auditing Standards*. The RIA has been cleared by the Office of Impact Analysis (OIA).

### Exemption from Sunsetting

Auditing Standards promulgated by the AUASB that are legislative instruments are exempt from the sunset provisions of the *Legislation Act 2003* through section 12 of the *Legislation (Exemption and Other Matters) Regulation 2015* (Item 18(a)).

The AUASB's Standards incorporate Standards set by the International Auditing and Assurance Standards Board. The AUASB's Standards are exempt from sunset because a more stringent review process than sunset applies to the Standards. This review process ensures Australia's Auditing Standards regime remains consistent with international standards. Typically, the AUASB Standards are revised at least once within a ten-year period, with most of the Standards subject to revisions much more frequently than that. Each revision follows the stringent review process (which includes the opportunity for public comment) in order to remain consistent with international Standards. It is very unlikely that any AUASB Standard would not have been amended (or else considered for amendment) within a ten-year period through these review processes. Therefore, if it applied, a ten-year sunset regime would have very limited practical application to AUASB Standards. Parliamentary oversight is retained whenever a Standard is replaced or amended since the Standards are disallowable instruments and subject to the normal tabling and scrutiny process as required by the *Legislation Act 2003*.

## STATEMENT OF COMPATIBILITY WITH HUMAN RIGHTS

*Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011*

**Legislative Instrument:**        **Auditing Standard ASA 2023-1 Amendments to Australian Auditing Standards**

This Legislative Instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

### Overview of the Legislative Instrument

#### *Background*

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

#### *Purpose of Auditing Standard ASA 2023-1*

The purpose of ASA 2023-1 is to make amendments to the requirements and application and other explanatory material and appendices of the following Auditing Standards:

ASA 102	<i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> (Issued December 2019 and amended to March 2021)
ASA 210	<i>Agreeing the Terms of Audit Engagements</i> (Issued October 2009 and amended to March 2020)
ASA 510	<i>Initial Audit Engagements – Opening Balances</i> (Issued October 2009 and amended to March 2020)
ASA 570	<i>Going Concern</i> (Issued December 2015 and amended to November 2021)
ASA 580	<i>Written Representations</i> (Issued October 2009 and amended to December 2018)
ASA 600	<i>Special Considerations – Audits of a Group Financial Report</i> (Issued October 2009 and amended to March 2020)
ASA 700	<i>Forming an Opinion and Reporting on a Financial Report</i> (Issued December 2015 and amended to September 2021)
ASA 705	<i>Modifications to the Opinion in the Independent Auditor's Report</i> (Issued December 2015 and amended to June 2020)
ASA 706	<i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i> (Issued December 2015 and amended to June 2020)
ASA 710	<i>Comparative Information-Corresponding Figures and Comparative Financial Reports</i> (Issued October 2009 and amended to November 2021)
ASA 720	<i>The Auditor's Responsibilities Relating to Other Information</i> (Issued December 2015 and amended to March 2020)

*Main Features*

ASA 2023-1 makes amendments to Australian Auditing Standards. The amendments represent:

- (a) changes arising from narrow-scope amendments made by the Australian Accounting Standards Board (AASB) to AASB 101 *Presentation of Financial Statements*;
- (b) changes to ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* arising from amendments made by the Accounting Professional & Ethical Standards Board (APESB) to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*; and
- (c) editorial corrections to revise minor inaccuracies, including misspellings and numbering or grammatical matters.

**Human Rights Implications**

Australian Auditing Standards are issued by the AUASB in furtherance of the objective of facilitating the Australian economy. The standards do not diminish or limit any of the applicable human rights or freedoms, and thus do not raise any human rights issues.

*Conclusion*

This Legislative Instrument is compatible with human rights as it does not raise any human rights issues.



## Impacts arising from the changes in AASB 101 on other AUASB Standards

Where this document inserts or deletes a paragraph or footnote, as a result of that insertion or deletion relevant paragraph numbers, cross-references and footnotes are updated.

1. AUASB Standard Para No.	2. Extant Wording in AUASB Standards	3. Amendments proposed by ATG
ASRE 2400 Appendix 1	<p><b>Illustrative Engagement Letter for an Engagement to Review Historical Financial Statements</b></p> <p>...</p> <p><i>[The objective and scope of the review]</i></p> <p>You<sup>15</sup> have requested that we review the general purpose 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 cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. We are pleased to confirm our acceptance and our understanding of this review engagement by means of this letter.</p> <p>...</p>	<p><b>Illustrative Engagement Letter for an Engagement to Review Historical Financial Statements</b></p> <p>...</p> <p><i>[The objective and scope of the review]</i></p> <p>You<sup>15</sup> have requested that we review the general purpose 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 cash flow statement for the year then ended, and <u>material accounting policy information</u> a summary of significant accounting policies and other explanatory information. We are pleased to confirm our acceptance and our understanding of this review engagement by means of this letter.</p> <p>...</p>
ASRE 2400 Appendix 2 Illustration 1	<p><b>INDEPENDENT ASSURANCE PRACTITIONER'S REVIEW REPORT</b></p> <p>...</p> <p><b>Report on the Financial Statements<sup>18</sup></b></p> <p>We have reviewed the accompanying 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</p>	<p><b>INDEPENDENT ASSURANCE PRACTITIONER'S REVIEW REPORT</b></p> <p>...</p> <p><b>Report on the Financial Statements<sup>18</sup></b></p> <p>We have reviewed the accompanying 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</p>



1. AUASB Standard Para No.	2. Extant Wording in AUASB Standards	3. Amendments proposed by ATG
	statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.  ...	year then ended, and <u>material accounting policy information</u> <del>a summary of significant accounting policies</del> and other explanatory information.  ...
ASRE 2400 Appendix 2 Illustration 2	INDEPENDENT ASSURANCE PRACTITIONER'S REVIEW REPORT  ...  <b>Report on the Financial Statements<sup>21</sup></b>  We have reviewed the accompanying 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 a summary of significant accounting policies and other explanatory information.  ...	INDEPENDENT ASSURANCE PRACTITIONER'S REVIEW REPORT  ...  <b>Report on the Financial Statements<sup>21</sup></b>  We have reviewed the accompanying 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 <u>material accounting policy information</u> <del>a summary of significant accounting policies</del> and other explanatory information.  ...
ASRE 2400 Appendix 2 Illustration 3	INDEPENDENT ASSURANCE PRACTITIONER'S REVIEW REPORT  [Appropriate Addressee]  We have reviewed the accompanying 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 a	INDEPENDENT ASSURANCE PRACTITIONER'S REVIEW REPORT  [Appropriate Addressee]  We have reviewed the accompanying 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 <u>material accounting policy information</u> <del>a</del>



1. AUASB Standard Para No.	2. Extant Wording in AUASB Standards	3. Amendments proposed by ATG
	summary of significant accounting policies and other explanatory information.  ...	<del>summary of significant accounting policies</del> and other explanatory information.  ...
ASRE 2400 Appendix 2 Illustration 4	INDEPENDENT ASSURANCE PRACTITIONER'S REVIEW REPORT  ...  <b>Report on the Consolidated Financial Statements<sup>25</sup></b>  We have reviewed the accompanying consolidated financial statements of ABC Company, which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.  ...	INDEPENDENT ASSURANCE PRACTITIONER'S REVIEW REPORT  ...  <b>Report on the Consolidated Financial Statements<sup>25</sup></b>  We have reviewed the accompanying consolidated financial statements of ABC Company, which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and <u>material accounting policy information</u> <del>a summary of significant accounting policies</del> and other explanatory information.  ...
ASRE 2400 Appendix 2 Illustration 5	INDEPENDENT ASSURANCE PRACTITIONER'S REVIEW REPORT  [Appropriate Addressee]  We were engaged to review the accompanying 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,	INDEPENDENT ASSURANCE PRACTITIONER'S REVIEW REPORT  [Appropriate Addressee]  We were engaged to review the accompanying 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 <u>material accounting policy information</u> <del>a</del>



1. AUASB Standard Para No.	2. Extant Wording in AUASB Standards	3. Amendments proposed by ATG
	and a summary of significant accounting policies and other explanatory information.  ...	<del>summary of significant accounting policies</del> and other explanatory information.  ...
ASRE 2400 Appendix 2 Illustration 6	<p>INDEPENDENT ASSURANCE PRACTITIONER'S REVIEW REPORT</p> <p>[Appropriate Addressee]</p> <p>We have reviewed the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management of ABC Company based on the financial reporting provisions of Section Z of the contract dated January 1, 20X1 between ABC Company and DEF Company ("the contract").</p> <p>...</p>	<p>INDEPENDENT ASSURANCE PRACTITIONER'S REVIEW REPORT</p> <p>[Appropriate Addressee]</p> <p>We have reviewed the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and <u>material accounting policy information</u> <del>a summary of significant accounting policies</del> and other explanatory information. The financial statements have been prepared by management of ABC Company based on the financial reporting provisions of Section Z of the contract dated January 1, 20X1 between ABC Company and DEF Company ("the contract").</p> <p>...</p>



# AUASB Agenda Paper

<b>Title</b>	GS 019 <i>Auditing Fundraising Revenue of Not-for-Profit Entities</i> (GS 019)	<b>Date:</b>	15 March 2023
<b>ATG Staff:</b>	Marina Michaelides and See Wen Ewe	<b>Agenda Item:</b>	10

## Recommendations and Questions for the Board

Question No.	Questions for the Board	ATG Recommendation and Overview
<b>Question 1</b>	Does the AUASB agree with the ATG recommendation to withdraw GS 019?	The ATG recommend the withdrawal of GS 019 and consider that appropriate consultation and due process have been undertaken to support the withdrawal.
<b>Question 2</b>	Does the AUASB have any fatal flaw comments on the draft AUASB Bulletin attached in <b>Agenda Item 10.1</b> ?	The ATG propose to issue an AUASB Bulletin to address auditing fundraising revenue for not-for-profit entities in a Digital Age.

## Background and Previous Discussions on Topic

- 1 At the September 2020 AUASB Meeting, the AUASB approved the AUASB Technical Group's (ATG) plan to update several Guidance Statements including [GS 019 Auditing Fundraising Revenue of Not-for-Profit Entities](#). The recommendation was based on feedback received from stakeholders in response to a discussion paper and survey issued to obtain broad feedback on the suite of guidance statements (see [Agenda Item 5 of the September 2020 AUASB Agenda Papers](#)).
- 2 At the November 2022 AUASB Meeting, the AUASB discussed the proposed withdrawal of GS 019 and replacement with a specific Not-for-Profit AUASB Bulletin of a similar but broader nature which will retain and modernise the content. The AUASB concluded that the withdrawal of GS 019 would be reconsidered following further review of the other Not-for-Profit (NFP) guidance materials developed by AUASB staff at the March 2023 AUASB meeting (see [Agenda Item 8 of the November 2023 AUASB Agenda Papers](#)).
- 3 GS 019 is considered no longer fit-for-purpose as the content is outdated primarily due to the changes in how a large proportion of cash donations are now collected and controlled by NFPs. The ATG updated the content in GS 019 in the form of a bulletin (see **Agenda Item 10.1**) to:
  - modernise the look and feel of the content;
  - make the guidance succinct for easy-reading for NFP sector auditors; and
  - allow future updates to the guidance to be more efficient and effective to serve the public interest in a timely manner.
- 4 The draft Bulletin focuses on fundraising revenue streams derived from physical and digital cash donations and donated materials where the completeness assertion has always been one of the main basis of qualifications in the auditor's report. Other revenue streams are considered out-of-scope of this Bulletin.



## Matters for Discussion and ATG Recommendations

### *Feedback received from recent stakeholder discussions*

- 5 In December 2022, the ATG shared the draft Bulletin to selected stakeholders (four practitioners, two professional bodies and ACNC) whom the ATG had initial discussions with regarding this matter in October 2022. Six out of seven stakeholders responded with high-level feedback and editorial comments. The high-level feedback relates to:
- the scope of the draft Bulletin which needed to be ringfenced so the focus was on fundraising revenue (government and non-government grants should be excluded);
  - the inclusion of specific references to digital fundraising revenue in fraud and responses to assessed risks sections; and
  - the nature of fundraising revenue should be categorized by physical cash or digital cash instead of revenue streams.

### *Engagement with academics*

- 6 The ATG consulted with Ms Jenny Yang from the University of New South Wales and Mr David Gilchrist from the University of Western Australia as part of information gathering process. Ms Jenny Yang provided a summary of her analysis on the number of qualified NFP reports for the years 2015, 2016 and 2017. The findings were consistent with the data provided by ACNC which showed a significant downward trend in the qualifications on the basis of completeness of fundraising revenue over these years. This information further supported ATG's proposal to withdraw GS 019 as GS 019 is no longer useful for auditors in the current environment.

### *Where GS 019 materials are kept*

- 7 Topics covered from paragraphs 6 to 25 of GS 019 are retained in the body of the draft Bulletin. These topics are updated to reflect current practices in the NFP sector and what they mean in digital fundraising. Please refer to **Agenda Item 10.1** for the draft Bulletin.
- 8 Appendix 1 of GS 019 (Example Controls and Audit Procedures Relating to Fundraising Revenue) is updated to reflect current practices and the content mirrors the type of revenue covered in the draft Bulletin. Please refer to **Agenda Item 10.2** for the updated Example Controls and Audit Procedures Relating to Fundraising Revenue. This document will be published on the [AUASB Not-for-Profit page](#). This will allow ease of access for the stakeholders and ease of update by the ATG if the information becomes outdated in the future.
- 9 Appendices 2 to 4 of GS 019 (various example auditor's reports under different circumstances) has been updated and published on the [AUASB Not-for-Profit page](#). The ATG worked with the ACNC when updating the example auditor's reports to ensure that the examples are tailored for the auditors of NFP entities. By housing the example auditor's reports on the landing page, it allows the ATG to periodically review and update the example auditor's reports whenever necessary to provide timely updates to the stakeholders. In addition, the ATG has extracted Emphasis of Matter paragraphs, qualified audit opinion paragraphs that are useful to NFP auditors (see **Agenda Item 10.3**) and these guidance materials will be published on the [AUASB Not-for-Profit page](#).

### *Process to withdraw GS 019*

- 10 Under the AUASB's [Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications](#) paragraph 265(b), a formal process to withdraw or repeal GSs



is not required; however, before the withdrawal of a GS the AUASB will publicise the intention to withdraw the GS on the AUASB website and through standard AUASB communication channels, to elicit any objections from stakeholders. The withdrawal of GS 019 is also mentioned in the introduction of the draft Bulletin.

## **ATG Recommendation**

- 11 The ATG recommend the withdrawal of GS 019 and publish an AUASB Bulletin that not only retains useful information from GS 019 but also provides updated guidance and references to other resources (see [AUASB Not-for-Profit landing page](#)) in a more succinct and readable format that could better assist auditors in auditing fundraising revenue of not-for-profit entities in the digital age.

## **Collaboration with NZAuASB and other standard setters**

- 12 GS 019 is an Australian specific guidance statement, there is no equivalent guidance issued by the NZAuASB.
- 13 The ATG is working collaboratively with the AASB on the AASB Discussion Paper – Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities) and related outreach activities. Through the recent AUASB discussions with stakeholders we noted that across the board one of the significant issues faced by practitioner stakeholders and NFPs was around accounting practices and application of accounting standards e.g. AASB 1058 Income for NFPs, AASB 16 Leases and AASB 124 Related Party Disclosures. AASB Tier 3 DP will hopefully assist with removing some of the complexity for the sector in these areas.

## **Next steps/Communications**

- 14 Depending on the outcome at the March 2023 AUASB meeting, in accordance with the AUASB Due process the ATG will publicise the intention to withdraw GS 019 on the AUASB website and through standard AUASB communication channels.
- 15 The ATG will incorporate any feedback received from the AUASB 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
10.1 (*PP)	Draft AUASB Bulletin
10.2 (*SP)	Example Controls and Audit Procedures Relating to Fundraising Revenue
10.3 (*SP)	Templates of audit and review reports

\*PP: AUASB Primary Papers Pack

\*SP: AUASB Supplementary Papers Pack

March 2023

# AUASB Bulletin

## Auditing Fundraising Revenue of Not-for- Profit Entities in a Digital Age

Draft

ISSUED BY  
AUDITING AND ASSURANCE STANDARDS BOARD



Australian Government  
Auditing and Assurance Standards Board

# 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.

## Disclaimer

This publication has been prepared by the Staff of the Office of Auditing and Assurance Standards Board.

The views expressed in this publication are those of the author(s) and those views do not necessarily coincide with the views of the Auditing and Assurance Standards Board. Any errors or omissions remain the responsibility of the principal authors.

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## Introduction and purpose

The Auditing and Assurance Standards Board (AUASB) has prepared this AUASB Bulletin to assist auditors of Not-for-Profit Entities (NFPs) to address key factors when undertaking their planning, risk assessment, performing and reporting on the completeness of fundraising revenue in a digital age.

The AUASB Bulletin highlights current issues relating to fundraising revenue collection and the impacts of the collection on audit procedures and the audit report. It also draws together other reference materials from the AUASB and other sources that auditors of NFPs may find useful.

GS 019 *Auditing Fundraising Revenue of Not-for-Profit Entities*<sup>1</sup> was issued in 2011 to provide guidance to auditors on the factors to consider when planning, performing and reporting on the completeness of fundraising revenue for not-for-profit entities. However, the guidance was considered no longer fit-for-purpose for auditors based on developments in technology and types of audit techniques applied in more recent years. As a result, GS 019 was withdrawn effective from XX March 2023 and replaced by this AUASB Bulletin, which has drawn some useful guidance from GS 019 and been updated to reflect current practice and other resources of the AUASB in a digital age. The appendices in GS 019 have also been updated and retained separately on the [AUASB Not-for-Profit page](#).

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

Auditors of NFPs need to consider both the regulatory framework and the legal structure of the NFPs they are auditing or reviewing. This will assist the auditor in determining what legislation for reporting and the audit or review requirements that apply at both a Commonwealth and State level. This understanding also needs to be overlaid with the legal structure of the NFP which may give rise to specific compliance obligations, including further reporting obligations.

NFPs registered with the Australian Charities and Not-for-Profit Commission (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 based legislation that NFPs may need to comply with, depending on the structure of the entity e.g. incorporated association, indigenous corporation etc.

Refer to the [AUASB Not-for-Profit page](#) for further resources to assist the auditors.

For an NFP that is a company limited by guarantee the auditor may be able to conduct a review engagement instead of an audit. Whilst this AUASB Bulletin is intended for audit engagements, the principles contained below are still relevant. For further details, refer to [ASRE 2415](#) *Review of a Financial Report - Company Limited by Guarantee*.

## Nature of Fundraising revenue

Fundraising revenue may be derived from a variety of sources including:

- physical cash donations
- digital cash donations

<sup>1</sup> Refer to the [archived copy](#) for more information.

- donated materials
- restricted and unrestricted grants from government<sup>2</sup>

It is likely that physical collections of cash donations have significantly reduced since the COVID-19 pandemic. Fundraising activities and the collection of fundraising revenue have in the most part moved to digital platforms with the use of credit card, EFTPOS, Go Fund Me, PayPal and QR codes to streamline the collection processes. A significant portion of revenue collection is now done electronically at point of sale and recording processes have become more technology driven than in the past. Consequently, auditors may need to consider General Information Technology Controls (GITCs) around revenue collection processes and other security risks such as breaching of privacy laws when dealing with donor credit cards details. Refer to Internal Control section below for more information on the considerations on internal controls and GITCs of the NFPs.

## Risk Considerations

The last few years have been challenging for the NFP and charities sectors, especially those with a significant portion of their revenue derived from fundraising activities. Technology advancement has allowed fundraising activities to continue via digital means, for example where donors have been able to donate using credit cards via online platforms instead of in more traditional fundraising methods. However, this increasing use of technology has also meant that GISC and cybersecurity risks may have a greater impact on audit risks around NFP fundraising revenue.

There has been an increasing number of privacy data breaches in cyberattacks reported in Australia in recent years. If the entity retains credit card information from donors, it is important that the entity has adequate IT controls to protect against cyberattacks.

See [AUASB Bulletin The Consideration of Cyber Security Risks in an Audit of a Financial Report](#) for more information.

## Internal Control

It is crucial for NFPs to maintain an effective internal control structure over its activities. However, this may be challenging for some NFPs due to the nature and size of its operations. Auditors may consider the impact of the following factors on internal controls of the NFP:

- limited resources being available to achieve internal control objectives;
- the likelihood that volunteers will be involved in the day-to-day operations of the NFP;
- culture and attitude of management personnel towards the importance of governance, accountability and responsibility;
- regulatory requirements or any externally imposed requirements by governments, contributors, or national or international bodies, and

<sup>2</sup> Grant income is outside the scope of this Bulletin. Refer to [GS 022 Grant Acquisitions and Multi-Scope Engagements](#).

- where third party specialist fundraisers or other noncontrolled entities e.g. branches or associates, undertake fundraising on behalf of a not-for-profit entity (under a documented agreement).

As fundraising activities have shifted more to digital collections in recent years, it is important for NFPs to maintain a sound GITCs system. [ASA 315](#) requires the auditor to obtain an understanding of the entity and its environment, and the internal controls relevant to the audit, and through this, identify and assess risks of material misstatement. This includes understanding the entity's use of IT and identifying risks arising from IT.

The AUASB has issued a Bulletin on [ASA 315 and the Auditor's Responsibilities for General IT Controls](#) to assist auditors in understanding the role of GITCs in the audit of a financial report and the auditor's responsibilities related to GITCs.

The AUASB has issued a staff paper on revised [ASA 315: Scalability Considerations for Audits of Less Complex Entities](#) (LCEs) to assist auditors of LCEs by highlighting how scalability has been considered in ASA 315. Auditors of NFPs are strongly encouraged to refer to this staff paper if the NFPs are considered less complex.

If the NFP uses a service organisation to collect fundraising revenue, the auditor is required to obtain an understanding of how the NFP uses the service organisation in the NFP's operations<sup>3</sup>. Refer to *ASA 402 Auditing Considerations Relating to an Entity Using a Service Organisation* for more information.

## Materiality

The quantity of the fundraising revenue may or may not be a material portion of a NFP entity's total revenue<sup>4</sup>. However, whilst the quantum of fundraising revenue may not be significant, the nature of this type of revenue means that qualitative materiality considerations may be relevant, given the characteristics of the NFP and the nature of and sources from which fundraising revenue is derived. Qualitative factors relating to fundraising revenue that the auditor may consider, include:

- governing documents or reporting frameworks prescribing specific recognition and/or disclosure requirements in the financial report;
- whether law, regulation or the applicable financial reporting framework affect users' expectations regarding the measurement or disclosure of certain items;
- key disclosures in relation to the industry in which the entity operates;
- whether attention is focused on a particular aspect of the entity's operations that is separately disclosed in the financial report; and
- indicators of deviations from normal activities such as the reversal of a trend, turning a loss into a profit or creating or eliminating the net asset position in the balance sheet.

## Fraud

As part of risk assessment procedures and related activities performed under ASA 315, the auditor needs to perform certain procedures<sup>5</sup> to obtain information for use in identifying, assessing and responding to risks of material misstatement due to fraud.

<sup>3</sup> See paragraph 9 of ASA 402.

<sup>4</sup> For further details on determining Materiality see ASA 320 *Materiality in Planning and Performing an Audit*.

<sup>5</sup> See ASA 240 paragraphs 18 to 25.

Paragraph 27 of ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* requires that based on a presumption that there are risks of fraud in revenue recognition, the auditor must evaluate the types of revenue, revenue transactions, or assertions that give rise to such risks. The auditor needs to document whether or not, this is applicable in accordance with paragraph 48 of ASA 240. If the presumption of fraud in revenue recognition cannot be rebutted and the NFP has a strong GITC system and internal controls around revenue, the risk of fraud due to revenue recognition may be low, then the audit response to the risk will involve testing the operating effectiveness of these controls<sup>6</sup>. If the risk of revenue recognition due to fraud is not low, then the auditor must design further procedures to address this risk in accordance with ASA 240.

If the NFP uses a third-party digital platform to collect fundraising revenue, it is important that the auditor understands how the funds are transferred from the third party to the authorised bank account of the NFP and the controls in place. When funds are transferred digitally, the risk of misappropriation of funds is likely to be low and consequently, the auditor may be able to rebut the presumption of fraud in revenue recognition if the auditor deems that such risks are not present.

## Responses to Assessed Risks

The auditor may need to design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level<sup>7</sup>. In designing these further audit procedures, the following may need to be considered when determining the extent of substantive procedures to be undertaken:

- the likelihood and magnitude of misstatement due to the particular characteristics of the significant class of transactions, account balance, or disclosure; and
- whether the risk assessment takes account of controls that address the risk of material misstatement, thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively<sup>8</sup>.

As the revenue of each NFP may be derived from different sources and methods, each source has its own distinct inherent and control risk. In assessing whether cash donations as a portion of fundraising revenue are not materially misstated the auditor's considerations may include:

- the nature of the various sources of fundraising revenue received by the NFP, the risks associated with their method of receipt, including any specific risks in the context of the entity's activities;
- the loss of incoming resources through fraud, the possibility that the NFP's records of incoming resources to which it is legally entitled may be incomplete as a result of fraud. A common type of fraud against NFPs is the diversion of donations to bank or building society accounts which the NFP governing body does not control;

See **example controls and audit procedures** in the dedicated Not-for-Profit AUASB webpage for more details.

- the effectiveness of the controls that are applied, given that some controls can usually be established for each source of fundraising revenue; and
- the materiality of each source of fundraising revenue in relation to all of the NFP's revenue.

<sup>6</sup> See ASA 240 paragraph 48.

<sup>7</sup> See ASA 330 *The Auditor's Responses to Assessed Risks* paragraph 6.

<sup>8</sup> See ASA 330 paragraph 7.

To assist auditors, the AUASB has issued two guidance materials to complement this AUASB Bulletin:

- [Example controls and audit procedures relating to fundraising revenue](#); and
- [Templates for audit and review reports](#)

These guidance and other useful resources relevant to NFPs are published on the [AUASB Not-for-Profit page](#).

As part of the risk assessment procedures and related activities performed under ASA 315, the auditor may be required to perform audit procedures around related party transactions<sup>9</sup>. This is to obtain information relevant to identifying the risks of material misstatement associated with related party relationships and transactions. Large charities are required to disclose remuneration of key management personnel in special purpose financial reports from the 2022 AIS reporting period<sup>10</sup>. With effect from 1 July 2023, NFPs are required by ACNC to comply with AASB 1024 *Related Party Disclosures*<sup>11</sup>.

## Forming an Opinion and Reporting

When forming an opinion, the auditor needs to consider whether uncorrected misstatements arising from the fundraising revenue recognition, if applicable, are material<sup>12</sup>. In the event that the auditor is unable to obtain sufficient appropriate audit evidence regarding the cash donations due to the impracticability to establish controls over the collection of cash, the auditor may consider issuing a qualified audit opinion on that basis<sup>13</sup>. Refer to [templates for audit and review reports](#) for some examples of qualified opinion paragraphs.

If the auditor considers it necessary to draw users' attention to the revenue recognition policy of the NFP, the auditor may consider including an Emphasis of Matter paragraph in the auditor's report provided<sup>14</sup>. Refer to [templates for audit and review reports](#) for some examples of an Emphasis of Matter paragraph.

Finally, the auditor may also need to consider any obligations to communicate significant findings from the audit<sup>15</sup>. This includes considering if there are any significant or other deficiencies in internal control or GITCs mentioned in the internal controls section of this bulletin that may need to be communicated to Those Charged with Governance and management<sup>16</sup>.

## Where to find further information

Refer auditors 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.

<sup>9</sup> See ASA 550 *Related Parties* paragraphs 12-17.

<sup>10</sup> For more information, see <https://www.acnc.gov.au/media/news/charities-urged-get-systems-place-now-comply-new-obligations>.

<sup>11</sup> For more information, see <https://www.acnc.gov.au/for-charities/manage-your-charity/obligations-acnc/reporting-annually-acnc/related-party-transactions>.

<sup>12</sup> See ASA 450 *Evaluation of Misstatements Identified during the Audit* paragraph 11.

<sup>13</sup> See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* paragraph 6.

<sup>14</sup> See ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* paragraphs 8-11.

<sup>15</sup> See ASA 260 *Communication With Those Charged With Governance* paragraph 16.

<sup>16</sup> See ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* paragraphs 7-10.



# AUASB Agenda Paper

<b>Title</b>	AUASB response to IAASB Strategy & Work Plan 2024-27	<b>Date:</b>	1 March 2023
<b>Strategic Objective:</b>	Influence international standards and guidance	<b>Agenda Item:</b>	11.0
<b>ATG Staff:</b>	Matthew Zappulla	<b>AUASB Sponsor:</b>	Bill Edge

## Recommendations and Questions for the Board

Question for the Board	ATG Recommendation Overview
Does the AUASB support the approach, key themes, and proposed responses to the IAASB's request for feedback on their 2024-27 Strategy and Work Plan Consultation?	That the AUASB consider and provide feedback on the AUASB Technical Staff's proposed approach and draft responses at the March 2023 AUASB meeting.

## Background and Previous Discussions on Topic

- 1 The IAASB released its Proposed Strategy and Work Plan for 2024–2027 consultation paper for comment in January 2023. A copy of the IAASB Consultation Paper has been provided for AUASB members to review in the supplementary papers pack at **Agenda Item 11.1**.
- 2 The final draft of the consultation paper was previously subject to AUASB review and comments at the November 2022 AUASB meeting as part of the AUASB's review of the December 2022 IAASB Agenda and Board Papers.
- 3 The AUASB provided feedback to the IAASB on its Work Plan for 2022-23 via a survey in September 2021. In formulating our reply to the current Proposed Strategy and Work Plan we have referred to the AUASB's previous submissions to the AUASB to ensure consistency.
- 4 The IAASB's proposed strategy "seeks to accelerate the actions originally laid out in the 2020-2023 strategy with a focus on standard setting that supports the performance of high-quality audit and assurance engagements" by focusing on four strategic objectives:
  - (a) Support the consistent performance of quality audit engagements by enhancing our auditing standards in areas where there is the greatest public interest need;
  - (b) Establish globally accepted standard(s) for assurance on sustainability reporting;
  - (c) Strengthen coordination with the International Ethics Standards Board for Accountants and other leading standard setters and regulators to leverage better collective actions in the public interest; and
  - (d) Create more agile, innovative ways of working in line with the Monitoring Group's reform vision.



- 5 Comments to the IAASB on its Proposed Strategy and Work Plan for 2024–2027 must be submitted by 11 April 2023.

## Matters for Discussion

### *Approach to developing the AUASB Submission*

- 6 The AUASB Chair and senior technical staff met in February 2023 to review the IAASB's consultation paper and determine the best approach to developing the AUASB's response. Whilst the subject matter under consideration extends to a period some years away and much can change over this period, as a National Standards Setter required to adopt the IAASB standards we deem it an important exercise to provide a comprehensive response to the IAASB on this topic. Additionally, we consider the AUASB submission on the IAASB's Proposed Strategy and Work Plan should reflect comments we received last year as part of the AUASB's Agenda Consultation process.
- 7 Nonetheless, we do not intend that the AUASB's response to the IAASB addresses all the specific questions they have included in their consultation paper. Instead, our proposed submission will provide support for the overall IAASB strategy (which in the ATG's view addresses all the right components), whilst raising some key themes which the AUASB considers the IAASB should allocate a greater focus on over the period under review. Additionally, consistent with the AUASB's response to the IAASB's 2022-23 work plan survey, we will provide direct comment on the IAASB's possible new standard-setting projects they have proposed may commence over the 2024-27 period.
- 8 The AUASB staff has not undertaken a formal outreach process to obtain feedback on the Board's proposed submission to the IAASB on this issue. This was not deemed necessary as feedback on the proposed IAASB work plan was requested as part of the AUASB's Agenda Consultation process carried out last year. A notice that the AUASB is preparing a submission to the IAASB on this matter and a request for comments or feedback from stakeholders was posted to the AUASB website and LinkedIn, and the AUASB staff will socialise the key themes in our draft submission with other key stakeholders before it is due in April 2023.

### *Proposed key themes in the AUASB's submission to the IAASB*

- 9 As noted above, we do not intend to critique the proposed goals and strategic drivers/actions/objectives included in IAASB's Proposed Strategy document. Instead, the proposal is that the AUASB submission to the IAASB highlight several key themes for the IAASB to consider as part of the planning and execution of its next Strategy and Work plan phase.
- 10 Key themes we have considered and our justification for including them are outlined in the table below. AUASB members are requested to review these themes and discuss their views on these themes at the march 2023 AUASB meeting. Likewise, if there are other themes which should be considered for the draft AUASB submission then AUASB members are requested to highlight them for discussion.



Theme	AUASB Comments
Timeliness of Standards Development (incl. greater consideration of narrow scope amendments to standards)	<p>The many years it takes the IAASB to plan, develop and finalise new or revised standards is too long. The IAASB should further review its current processes to identify where and how existing processes could be streamlined to produce standards over a quicker timeline in response to stakeholder and environmental demands.</p> <p>As part of our AUASB submission we will make constructive suggestions to the IAASB about how their existing processes and timelines may be improved, and welcome suggestions from AUASB members on this point. (E.g., identifying more ‘narrow scope’ amendments to standards targeted at specific areas of focus, rather than doing full scale revisions of existing pronouncements).</p>
Increased emphasis on Implementation support	<p>Whilst the IAASB notes it will develop ‘first time implementation support’ for each of its standard setting projects, the diminishing level of resources and lack of timeliness of the release of implementation materials the IAASB has applied recently in this area is a concerning trend. We consider the IAASB needs to include a greater emphasis on this activity as the failure to prioritise this activity directly impacts the quality of implementation across the globe. We acknowledge further effort on implementation support may be considered a challenge to the IAASB’s limited resources, but this can be addressed by further collaboration and partnering with National Standard Setters like the AUASB, which we’d be happy to assist with.</p>
Importance of timely post implementation review (PIR) projects for recent standards	<p>The IAASB has identified in its proposed Work Plan possibly performing PIRs of some recently released standards. With some of these recently released standards (especially ISA 540 and ISA 315) being so critical to the overall conduct of the audit we would urge the IAASB to commit to a timely and effective post implementation review of these pronouncements.</p>
Ensuring IAASB standards are relevant for non-accountants and the public sector	<p>The AUASB appreciates the need for standard setting projects to align to current and existing IAASB pronouncements, however where new standards are intended for use by a wide range of stakeholders (including non-accountants, as is the case with the proposed Sustainability Assurance standard currently in development), it is important that the scope of any proposed standards is inclusive and not overly drawn-out and complex. Brevity and clarity should be a priority when draft new standards, especially when they are intended to have a broad user base.</p> <p>Similarly, we would urge the IAASB to include further application material or separate guidance that supports the implementation of its standards in the public sector.</p>



## *AUASB proposed feedback on the IAASB's possible new standard-setting projects for 2024-27*

- 11 In their consultation paper (refer pages 20 – 22 of **Agenda Item 11.1**) the IAASB has listed 9 possible new standard setting projects which may commence over the 2024-27 period, and requested feedback on which of these should be included on the IAASB's Work Plan.
- 12 Having regard to the AUASB's previous response to the IAASB on its 2022-23 Work Plan and other local and global developments, the AUASB Technical Group proposes that the following 6 possible standard-setting projects are considered as the highest priority by the IAASB:
  - Revision of ISA 330, The Auditor's Procedures in Response to Assessed Risk
  - Update of various standards in the ISA 500 series (i.e. Analytical Procedures, Sampling), with the focus on updates relating to the impact of technology.
  - Further standards for assurance on Sustainability Reporting (new standards)
  - Revision of ISA 720, Auditor's responsibilities relating to Other Information
  - Revision of ISRE 2410, Review of Interim Financial Information
  - Revision of ISA 620, Using the work of an Auditor's Expert

*NB: The AUASB Technical Director will provide further detail of the rationale for each of these projects being considered a priority for the AUASB at the March 2023 AUASB meeting.*
- 13 Respectively the AUASB Technical Group regards the remaining 3 possible standard-setting projects should not be added to the IAASB's proposed Work Plan.
  - Revision of ISA 320, Materiality
  - Joint Audits (new standard)
  - Assurance on XBRL (new standard)
- 14 AUASB members are requested to provide their feedback on the AUASB's proposed response to this matter in the consultation paper. Additionally, the AUASB Technical Group welcomes any comments on any other possible standard-setting projects that the IAASB should consider for its next Work Plan not listed above.

## **Collaboration with NZAuASB and other standard setters**

- 15 AUASB staff have reviewed and discussed the initial NZAuASB proposed response to the Proposed Strategy and Work Plan which was presented to the NZAuASB at their most recent Board Meeting on 15 February 2023. Many of the key themes and areas of focus in this AUASB Board Paper accord with the NZAuASB's initial views.
- 16 Senior technical staff from both the AUASB and NZAuASB will reconvene after the March 2023 AUASB meeting to further align our responses where appropriate.



- 17 In addition, informal meetings with other like-minded national auditing standard setters (Canada, UK, US) are planned in late March to review proposed responses to the IAASB from different territories.

## Next steps/Way Forward

- 18 With comments on the IAASB's Proposed Strategy and Work Plan for 2024–2027 due by 11 April 2023 AUASB technical staff will convert the key themes in this AUASB board paper and other feedback from AUASB members provided at the March 2023 AUASB meeting into a formal draft submission for out of session review by the end of March 2023.

## Materials Presented

Agenda Item	Description
11.1 (*SP)	IAASB Consultation Paper - Proposed Strategy and Work Plan for 2024–2027

\*SP: AUASB Supplementary Papers Pack

Draft



# AUASB Agenda Paper

<b>Title:</b>	<b>Feedback on - IAASB's Proposed ISA 500 (Revised) <i>Audit Evidence</i></b>	<b>Date:</b>	15 March 2023
<b>ATG Staff:</b>	Marina Michaelides	<b>Agenda Item:</b>	12

## Recommendations and Questions for the Board

Question No.	Questions for the Board	ATG Recommendation Overview
<b>Question 1</b>	Does the AUASB support the ATG's observations in relation to the key themes of ED ISA 500?	That the AUASB note and consider the ATG's analysis of the key themes in ED ISA 500 below for the AUASB's submission to the IAASB.
<b>Question 2</b>	Does the AUASB have any comments on the feedback received to date from stakeholders?	That the AUASB note and consider the summary of the ATG's feedback to date on ED ISA 500 for the AUASB's submission to the IAASB.

## Background and Previous Discussions on Topic

1. The AUASB has been updated on key matters at a number of Board meetings through the development of the IAASB ED since the ISA 500 *Audit Evidence* project proposal was approved by the IAASB in December 2020. Matters raised by the AUASB during the development phase through to final ED have been addressed by the ATG and where appropriate discussed at the IAASB meetings through the Australian Public Interest Member.
2. In October 2022 the IAASB issued Exposure Draft ISA 500 (Revised) *Audit Evidence* (IAASB ED), with a 180 day exposure period with comments due by 24 April 2023.
3. The IAASB ED retains the principles-based approach and serves as an overarching standard that deals with the auditor's responsibilities relating to audit evidence when designing and performing audit procedures. As such the IAASB ED provides an important underpinning, or "reference framework", for auditors when making judgements about audit evidence throughout the audit.
4. In November 2022 the AUASB issued its [consultation paper on ED ISA 500](#) please refer to this paper as you go through the key themes discussed below.
5. In February 2023 the AUASB held one face to face and one virtual roundtable primarily made up of auditors from the large and mid-tier firms, accounting professional bodies and the regulator with approximately 35 stakeholders in total.



## Matters for Discussion and ATG Recommendations

1. Since the Nov 22 Board meeting the ATG have undertaken the education and outreach plan as outlined in the [Nov 22 papers](#):
  - a. Stage 1:
    - i. Issued the approved Consultation Paper - Exposure of the IAASB's Proposed ED ISA 500 (Revised) *Audit Evidence* in early December 2022.
    - ii. ATG released an educative Webinar in mid-December 2022 about the key changes to and key themes in Proposed ED ISA 500 (Revised) *Audit Evidence*.
  - b. Stage 2:
    - i. ATG held two roundtable events (Melbourne & online) in mid-February and other stakeholder meetings to elicit specific feedback from stakeholders on Proposed ED ISA 500 (Revised) *Audit Evidence* to assist with the AUASB's submission to the IAASB.
2. The comment period for feedback to the AUASB closes on 31 March 2023 and the AUASB will need to consider and approve the AUASB's final submission to the IAASB by 24 April 2023.

## Key Themes to Discuss with AUASB

3. The ATG have focused on some key themes in the IAASB Consultation Paper which are summarised below and provided some high-level views given by stakeholders and more detailed comments to date in Appendix 1 to this paper.

### **Theme 1: Principles based – reference framework (Para 9, A34-A62)**

**Do the AUASB support the approach taken by the IAASB in the proposed ED ISA 500 ([refer Agenda Item 12.1](#)) to develop a principles-based reference framework to assist auditors in making enhanced judgements when obtaining and evaluating audit evidence?**

The IAASB developed a principles-based approach when making judgments about information intended to be used as audit evidence, for both internal and external sources of information. They developed a set of attributes of relevance and reliability to enhance the auditor's judgments relating to audit evidence that is adaptable and scalable to a wide variety of circumstances. For example, in evaluating the relevance and reliability of all information intended to be used as audit evidence, ED ISA 500 focuses the auditor's attention on:

- The attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose of the audit procedure.
- The source of the information and how the source may affect the auditor's judgments regarding the attributes of relevance and reliability that are applicable in the circumstances.

This principles-based reference framework is likely to have a direct impact on the future development of other evidentiary ISA's that may be prioritised for revision as part of the IAASB's 2024-2027 forward strategy and work plan e.g. ISA 520 Analytical Procedures and ISA 530 Sampling. It is unclear at this time as to whether the revision of these standards will provide more extensive requirements than ED ISA 500 as the overarching framework standard. It was also noted by stakeholders that there will need to be consideration of the interplay between ED ISA 500 and ISA 230 *Audit Documentation* and ISA 330 *The Auditor's Response to Assessed Risks*.

On the whole stakeholders from our outreach sessions held in February 2023, did not seem to have any significant concerns around ED ISA 500 being a principles-based reference framework or with the revised scope and introduction paragraphs.

## *ATG Recommendation*

The ATG support the IAASB's approach of a principles-based reference framework for ED ISA 500.

### **Theme 2: Use of a Management's Expert (Para 11, A66-A78)**

**Does the AUASB agree that the new limbs to the information prepared by a management's expert (para 11c (i) and (ii) should be incremental?**

The IAASB sought to enhance and clarify the auditor's responsibilities when using information intended to be used as audit evidence that has been prepared by a management's expert. For example:

- clarifying that the requirement builds on, and is incremental to, the overarching requirement to evaluate the relevance and reliability of information intended to be used as audit evidence; and
- focusing the auditor on understanding how management has considered the appropriateness of such information, including any modifications made by management.

Generally, stakeholders on outreach did not provide any specific feedback around the incremental requirements for the use of a management's expert except for one which raised the issue of applying paragraph 11 in the context of ISA 540 *Accounting Estimates*.

## *ATG Recommendation*

The ATG support the IAASB's approach to incremental requirements on management's experts.

### **Theme 3: Revised definition of Audit Evidence (para 7(b))**

**Do the AUASB agree with the revised definition of Audit Evidence (para 7(b) of ED ISA 500) being information to which audit procedures are applied = Audit Evidence?**

The revised definition of audit evidence in ED ISA 500 (paragraph 7(b)) describes audit evidence as information, to which audit procedures have been applied, that the auditor uses to draw conclusions that form the basis for the auditor's opinion and report (emphasis added). This is referred to as the input-output model.

The IAASB added the reference to the report based on paragraph A30 of ISA 200, as audit evidence is in fact needed to support the auditor's conclusions in forming an opinion and in preparing and issuing the auditor's report. Other references throughout ED ISA 500, including in the objectives (paragraph 6(a)) are only to the auditor's opinion because, in most cases, such references are in the context of obtaining sufficient appropriate audit evidence to enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.

On the whole stakeholders were fairly comfortable with the revised definition of audit evidence reflecting the input-output model.

Some stakeholders on outreach raised the inconsistency with the reference to the auditor's opinion and report throughout ED ISA 500 and found this confusing. Another stakeholder noted that the revised definition does not include reference to the source of information. They questioned whether there was enough emphasis on external audit evidence having a higher evidentiary value than audit evidence that is internally generated. They also noted that the current definition in ISA 500 includes reference to the source of information. They also questioned what is meant by "audit procedures" in the revised definition which is dealt with at length in the AM at para A24 to A33.

## *ATG Recommendation*

See comments from stakeholders above for consideration.



**Theme 4: Modernising and supporting a principles-based standard that recognises the evolution of technology (Para A3–A4, A17, A22–A23, A27–A29, A32, A41–A42, A61, Appendix: 2, 5, 6,10)**

**Do the AUASB believe the IAASB have gone far enough on the use of technology and types of technology that may be used?**

**Does the AUASB believe the examples provided around technology are relevant in practice or could further examples be provided?**

The IAASB sought to reinforce a principles-based approach that is not prescriptive to the use of technology but enables the auditor to apply the standard in an evolving audit environment with the increasing use of technology. For example, the AM:

- clarifies that the auditor may use manual or automated tools and techniques to perform audit procedures to obtain audit evidence;
- explains how the use of automated tools and techniques may affect auditor bias, including automation bias; and
- uses examples, as appropriate, that draw attention to or recognize the use of technology by the entity or by the auditor.

The majority of stakeholders on outreach felt that ED ISA 500 was playing “lip service” to technology and wanted to see more practical and better examples given as to the actual use of technology with regard to audit evidence. Stakeholders asked for more detail around the principles on the types of technologies that may be used to gather audit evidence and how much audit evidence is required when using different types of technology driven tools as part of the audit methodology.

*ATG Recommendation*

See comments from stakeholders above for consideration.

**Theme 5: Fostering the Appropriate Exercise of Professional Scepticism**

**Do the AUASB believe that ED ISA 500 goes far enough to emphasise the importance of professional scepticism with regard to audit evidence?**

**Could the IAASB provide more examples in the application material (AM) as to the application of professional scepticism in practice?**

The IAASB sought to emphasise the importance of professional scepticism, including when:

- designing and performing audit procedures in a manner that is not biased;
- evaluating the relevance and reliability of information intended to be used as audit evidence; and
- Considering all audit evidence obtained, as a basis for concluding whether sufficient appropriate audit evidence has been obtained.

On the whole stakeholders on outreach did not agree that the additional emphasis of professional scepticism in ED ISA 500 would improve the fostering of professional scepticism throughout the gathering and evaluation of audit evidence. Practitioners felt that professional scepticism is always an implied requirement on all audit engagements and is a “mindset” and therefore the concept does not need to be explicitly stated through a new “stand back” requirement.

*ATG Recommendation*

See comments from stakeholders above for consideration.

## **Theme 6: Sources of information used as Audit Evidence (para 9(a), 10, A48-A52)**

**Do the AUASB support the attributes of relevance and reliability that have been developed by the IAASB and discussed at length in the AM (para A48-A52)?**

**Do the AUASB agree that the requirements should specifically call out the attributes of completeness and accuracy (para 10 of ED ISA 500)?**

Sources of audit evidence is now only referenced in the requirements at para 9(a) and no longer specifically referenced in the revised definition of audit evidence at para 7(b) as it is in the extant ISA 500. There are however several AM paragraphs dedicated to this topic.

One stakeholder noted that they prefer the old definition of audit evidence because there is explicit reference to the source of the information. They questioned whether there should be reference to the source of audit evidence in the requirements and not just the AM?

### *ATG Recommendation*

The ATG support the IAASB's approach on use of the attributes of relevance and reliability.

The ATG support the approach with regard to the attributes of completeness and accuracy as it is consistent with the extant ISA 500.

## **Theme 7: Interrelationship between Relevance & Reliability and Persuasiveness (A6-A9)**

**Do the AUASB agree that the source of the audit evidence is primarily discussed in the AM? Is the balance right or should there be some acknowledgment of the sources of audit evidence in the requirements?**

The IAASB project proposal indicated that they would explore the relevancy of the notion of the "persuasiveness" of audit evidence in the context of ED ISA 500, given the auditor's responsibility to obtain more persuasive audit evidence the higher the auditor's assessment of risk in accordance with ISA 330.<sup>1</sup> The IAASB supported introducing the concept of persuasiveness in ED ISA 500 but not a definition of the term. The IAASB added AM (paragraphs A6-A9 of ED ISA 500) to explain the interrelationship of these concepts, including factors that may affect the sufficiency and appropriateness of audit evidence, and therefore its persuasiveness.

A number of stakeholders noted that the concept of persuasiveness of audit evidence is only discussed in the AM paragraph's A5-A9, A24 and A28 of ED ISA 500 in relation to the interrelationship with sufficiency and appropriateness and not in the requirements.

Stakeholders agreed the concept of persuasiveness is covered in ISA 330 (para A1 and A64) and as such they do not agree that introducing this concept again into the AM in ED ISA 500 is useful. Stakeholders believe it detracts from the concepts of sufficiency and appropriateness which are well understood to mean the measure of quantity and quality of audit evidence respectively.

### *ATG Recommendation*

The ATG do not support the IAASB's approach re: reference to the sources of audit evidence in the AM only and think this should be revisited in the requirements.

### *"Compelling Reasons" Assessment*

8. At this time the ATG are not aware of any matters that should be brought to the AUASB's attention which may be considered a compelling reason to modify ED ISA 500. One of the aims of the International Influencing Strategy is to early influence in the IAASB standard setting process so that Australian stakeholder feedback is taken into account by the IAASB when developing the standard from exposure draft thereby reducing the need for compelling reason amendments.

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<sup>1</sup> ISA 330 *The Auditor's Responses to Assessed Risks*, paragraph 7(b).



## Timeline

28 Nov 2023	AUASB meeting to approve the Australian Consultation Paper.
5 December 2023	Issue Consultation Paper with a 115-day comment period closing 31 March 2023.
Mid Dec 2023	AUASB Educative Webinar – advertised via website and social media platforms.
Late February – Early March 2023	Two in-person roundtable events (Melbourne & Sydney) – advertised via website and social media platforms with some targeted advertising.
15 March 2023	Key Issues/Themes from outreach on IAASB ED ISA 500 discussed at Board meeting. AUASB to provide feedback on the direction of the IAASB submission.
31 March 2023	Comment period closes.
Mid-April 2023	Feedback summary and draft response to AUASB – form and timing of meeting to be determined
20 April 2023	Out of session AUASB approval of final response to IAASB.
24 April 2023	Submission due to IAASB.

## Collaboration with NZAuASB and other standard setters

9. Like the AUASB, the NZAuASB have requested feedback from New Zealand stakeholders on the IAASB's proposed amendments to ISA 500 (Revised) *Audit Evidence*, with comments requested by 15 March 2023. The NZAuASB staff also undertook a virtual outreach session on 1<sup>st</sup> March 2023. The AUASB have agreed to share feedback received from both jurisdictions and coordinate our responses to the IAASB where appropriate.

## Next steps/Way Forward

10. Key themes and issues raised by stakeholders and the Board will be incorporated by the ATG into the final submission to the IAASB. A final draft submission for fatal flaw review by the Board will be sent out of session by 14<sup>th</sup> April 2023 with a short turnaround time to finalise the submission by 21st April 2023.

## Materials Presented

Agenda Item	Description
12.1	AUASB Consultation Paper - Exposure of the IAASB's Proposed ED ISA 500 (Revised) <i>Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs</i> .



## Appendix 1

### Key Themes – Initial Comments from Stakeholders

#### **1. *Responding to changes in the information that is being used by auditors, including the nature and source of information: Adaptability and Scalability***

Comments from stakeholders:

- Stakeholders generally supports the revised scope and purpose of ED ISA 500, including the links made to other standards in the Appendix.
- The purpose and intent are clear – issue is how it will be interpreted. The second aspect to the question is perhaps more challenging. What type of evidence would you expect to see evolve – regulators can take different interpretations of... looks to be less principles-based.
- Reads well but how will they interpret it? Reliability and relevance of information.
- Open in the ED that some is it in response to wanting it to be more enforceable which pushes it away from being solely principles-based.
- Is the standard fit for purpose? If it's not achieving what it sets out to achieve, then what's the point? The standard seems to provide a framework so where does the detail sit?
- We agree that it should be principles-based but there should be a greater level of detail.

#### **2. *Use of a Management's Expert (Para 11, A66-A78)***

Comments from stakeholders:

- Stakeholders did not provide any specific feedback around the incremental requirements for the use of a Management's expert except for one which raised the issue of applying paragraph 11 in the context of ISA 540 *Accounting Estimates*.

#### **3. *Revised definition of Audit Evidence***

Comments from stakeholders:

- On the whole stakeholders were comfortable with the revised definition of audit evidence reflecting the input-output model.
- One stakeholder noted that the revised definition does not include reference to the source of information. They questioned whether there was enough emphasis on external documentation having a higher evidentiary value than audit evidence that is internally generated. The extant ISA 500 includes reference to the source of information in the current definition.
- They also questioned what is meant by "audit procedures" which is dealt with at length in the AM at para A24 to A33.



## **4. *Modernising and supporting a principles-based standard that recognises the evolution of technology***

Comments from stakeholders:

- In terms of whether it is balanced with respect to technology – the standard is light, there are two application notes with respect to technology A3 and A4 which are useful because they acknowledge that we might use automated tools, but they don't provide much guidance on how these tools might be used.
- It has addressed some concerns and directly references to the fact that you can use technology when it is relevant (leaves a big gap for judgement). Leaves questions around when you can use technology-based procedures to perform substantive procedures to give assurance.
- It's going to fall short from what is useful. Within firms, understanding what kind of procedures they have done using IT – what does this give you regarding audit evidence?
- What additional things could be in the standard to assist auditors in the use of technology? There's a fear of redundancy or obsolescence from the standard setters POV – what about non-authoritative guidance?
- They tend to put simple examples in the AM rather than putting examples that are helpful / practical. If it is only supposed to be taken as an example, then they should be able to build something around it such as a case study. We are told upfront that it's not supposed to become a checklist yet once it's in the AM of the standard it is pretty much expected to be followed and becomes a quasi-requirement. Not convinced if providing examples in the appendices will resolve this – but probably a better option overall because it provides more guidance.
- The language used in the standard is not prohibitive to the use of technology.
- There needs to be more detail around the principles of the types of technologies– how much is enough when using this type of tool?

## **5. *Fostering the Appropriate Exercise of Professional Scepticism***

Comments from stakeholders:

- Stand-back requirement – why do we need this – should be all encompassing as to how you are exercising professional scepticism.
- If you mandate what professional scepticism should look like, then people will just end up following a checklist – it takes the professional judgement out of the audit. Think that the tightening of what needs to be done regarding professional scepticism is setting companies up to be litigated against as opposed to receiving a good quality audit.
- Not helpful to say “be sceptical” – there's a concern that going from obtaining to evaluating audit evidence could impact the level of work performed. If you initially find corroborating evidence – what more should you do? The issue seems to be whether you have done enough to go from information to sufficient appropriate audit evidence?

## **6. *Sources of information used as Audit Evidence (para 9(a), A48-A52)***

Comments from stakeholders:

- One stakeholder noted that they prefer the old definition of audit evidence because there is explicit reference to the source of the information. They questioned whether there should be reference to the source of audit evidence in the requirements and not just the application material?



## 7. *Interrelationship between Relevance and Reliability and Persuasiveness*

Comments from stakeholders:

- Some stakeholders note that the concept of persuasiveness of audit evidence is only discussed in the AM paragraph's A5-A9, A24 and A28 of ED ISA 500 in relation to the interrelationship with sufficiency and appropriateness and not in the requirements.
- The concept of persuasiveness is covered in ISA 330 *The Auditor's Response to Assessed Risks* (para A1 and A64) and as such they do not agree that introducing this concept again into the AM in ED ISA 500 is useful.
- Stakeholders believe it detracts from the concepts of sufficiency and appropriateness which are well understood to mean the measure of quantity and quality of audit evidence respectively.
- Some stakeholders strongly disagree with the inclusion of requirement 10 of ED ISA 500 where the attributes of accuracy and completeness are called out separately where they are applicable in the circumstances. This seems to indicate that these attributes have a higher evidentiary prominence than other attributes even though requirement 9(b) already requires the auditor to consider all the attributes of relevance and reliability that are applicable in the circumstances. Therefore, some stakeholders question the need for requirement 10 in ED ISA 500. Notwithstanding that this concept is already called out in the extant ISA 500 standard.
- Requirements in para 9(b) and 10 need to be further explained and clarified to ensure that consistency in work effort is maintained cross similar audit engagements. There appears to be a lack of consensus that the terminology introduced in the requirements "appropriateness of the audit procedures in the circumstances" will achieve this objective and may have unintended consequences.

## Proposed ISA 570 (Revised 202X), *Going Concern* – Clean

This Agenda Item includes a clean version of proposed ISA 570 (Revised 202X) presented in **Agenda Item 2-B**. Since the December 2022 IAASB meeting the standard was renumbered to show the requirements and application material in sequence.

### 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.<sup>1</sup> 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.

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<sup>1</sup> IAS 1, *Presentation of Financial Statements*, paragraphs 25–26

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.
  - 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,<sup>2</sup> 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 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;

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<sup>2</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraphs A53–A54

- (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:

**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),<sup>3</sup> 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),<sup>4</sup> 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)

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<sup>3</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraphs 13-14

<sup>4</sup> ISA 315 (Revised 2019), paragraphs 19-27

#### 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)

#### The Entity's System of Internal Control

- (f) Unless all of those charged with governance are involved in managing the entity,<sup>5</sup> 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)

#### *Identification and Assessment of the Risks of Material Misstatement Associated with Going Concern*

- 14. In applying ISA 315 (Revised 2019),<sup>6</sup> 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),<sup>7</sup> 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. 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)

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<sup>5</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 13

<sup>6</sup> ISA 315 (Revised 2019), paragraph 35

<sup>7</sup> ISA 315 (Revised 2019), paragraph 27

17. In designing and performing the audit procedures required by paragraph 16, 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)

*Method, Assumptions and Data Used in Management's Assessment*

18. The audit procedures required by paragraph 16 shall include evaluating: (Ref: Para. 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*

19. 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 Make or Extend Its Assessment*

20. 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.
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,<sup>8</sup> the auditor shall request management to extend its assessment period to at least twelve months from that date. (Ref: Para. A42)
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

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<sup>8</sup> ISA 560, *Subsequent Events*, paragraph 5(b)

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 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 16-18.

#### **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–A50)
  - (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. A51–A53)

#### **Information Becomes Available After Management Made Its Assessment**

28. The auditor shall consider whether any additional information has become available to the auditor after the date on which management made its assessment and before the date the financial statements are issued. In doing so, the auditor shall determine whether or not such information is related to management's assessment of the entity's ability to continue as a going concern.
29. If the auditor determines that the additional information is related to management's assessment of the entity's ability to continue as a going concern in accordance with paragraph 28, the auditor shall perform the audit procedures required by paragraph 25. (Ref: Para. A54–A55)

## Evaluating the Audit Evidence Obtained and Concluding

30. 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:
- (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. A56–A59)
  - (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.
31. Based on the audit evidence obtained, the auditor shall 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.
32. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications for the audit or the auditor's opinion on the financial statements in accordance with ISA 705 (Revised).<sup>9</sup>

## Adequacy of Disclosures

### *Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists*

33. 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. A60–A63, A65)

### *Adequacy of Disclosures When Events or Conditions Have Been Identified and a Material Uncertainty Exists*

34. 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. A64–A65)
- (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.

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<sup>9</sup> ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

## Implications for the Auditor's Report

### *Use of Going Concern Basis of Accounting Is Appropriate – No Material Uncertainty Exists*

35. 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. A66–A67)
- (a) State that the auditor: (Ref: Para. A68–A69)
    - (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. A70–A71, A76)
    - (i) Include a reference to the related disclosure(s), if any, in the financial statements; and (Ref: Para. A60–A63, A65)
    - (ii) Describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A72–A75)

### *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*

36. 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. A66–A67, A77–A78)
- (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. A64–A65)
  - (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. A72–A75)
  - (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

37. If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall: (Ref: Para. A66–A67, A77, A79)
- (a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA 705 (Revised);
  - (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.

#### *Considerations When the Auditor Disclaims an Opinion on the Financial Statements*

38. 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.<sup>10</sup> (Ref: Para. A80–A81)

#### *Use of Going Concern Basis of Accounting Is Inappropriate*

39. 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. A82–A83)
- (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**

40. 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<sup>11</sup> and, where appropriate, those charged with governance, regarding: (Ref: Para. A84)
- (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.

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<sup>10</sup> ISA 705 (Revised), paragraph 29

<sup>11</sup> ISA 580, *Written Representations*

## Communication with Those Charged with Governance

41. Unless all those charged with governance are involved in managing the entity,<sup>12</sup> 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. A85–A86)
- (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;
  - (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. A87)

## Reporting to an Appropriate Authority Outside of the Entity

42. 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. A88–A91)
- (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.

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## Application and Other Explanatory Material

### Scope of this ISA (Ref: Para. 1)

- A1. ISA 701<sup>13</sup> 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.<sup>14</sup> However, in such circumstances, the implications for the auditor's report are in accordance with this ISA.

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<sup>12</sup> ISA 260 (Revised), paragraph 13

<sup>13</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>14</sup> ISA 701, paragraph 15

## 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.<sup>15</sup> 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.

### **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.<sup>16</sup>

### **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 31 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.

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<sup>15</sup> IPSAS 1, *Presentation of Financial Statements*, paragraphs 38–41

<sup>16</sup> IAS 1, paragraph 26

## 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. 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.

#### 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.<sup>17</sup>

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.

<sup>17</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 24

*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 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)<sup>18</sup> 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, which 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 A56–A59).
- 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

<sup>18</sup> ISA 315 (Revised 2019), paragraph 13

been breached.

The Applicable Financial Reporting Framework

- Inspecting 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 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 determination as to 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 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:
  - How management determines that the assumptions are relevant and complete.
  - 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),<sup>19</sup> 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 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.<sup>20</sup> 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, information about risk factors such as 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).<sup>21</sup>

*Identification and Assessment of the Risks of Material Misstatement Associated with Going Concern* (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<sup>22</sup> deals with the auditor's responsibility to

<sup>19</sup> ISA 315 (Revised 2019), paragraph A48

<sup>20</sup> ISA 315 (Revised 2019), paragraph 37

<sup>21</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

<sup>22</sup> ISA 265, *Communicating Deficiencies in Internal Control to Management and Those Charged with Governance*

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.<sup>23</sup>

*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.
- 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. 16)

- 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 has 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.

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<sup>23</sup> ISA 240, paragraphs 26-28

Scalability (Ref: Para. 16)

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.
- 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. 17)

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. 18)

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. 18(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 A56–A59).

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. 18(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 A56–A59).

**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. 18(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. 18)

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 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. 19)

- 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 Make or Extend Its Assessment* (Ref: Para. 20–23)

- 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.<sup>24</sup> 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.
- 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

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<sup>24</sup> 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.

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).<sup>25</sup> For example, if management's decision is unreasonable in the circumstances, this may indicate a fraud risk factor that requires 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 A54 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.

<sup>25</sup> ISA 315 (Revised 2019), paragraph 37

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.
- Inquiries 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 assessing the financial ability of such parties to provide additional funds (also see paragraphs A51–A53).
- 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<sup>26</sup> 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.

<sup>26</sup> ISA 330, *The Auditor's Responses to Assessed Risks*, paragraph 19

- 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 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 financing are not available, then a material uncertainty may exist.

*Financial Support by Third Parties or Related Parties, Including the Entity's Owner-Manager*

Intent (Ref: Para. 27)

A51. 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<sup>27</sup> 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)

A52. 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:

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<sup>27</sup> ISA 505, *External Confirmations*, paragraph 6(a)

- 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.

Scalability (Ref: Para. 27)

- A53. 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 Management Made Its Assessment** (Ref: Para. 29)

- A54. When the auditor determines that additional information is related to management's assessment of the entity's ability to continue as a going concern, the auditor discusses the matter with management to understand the effects of the events or conditions on management's assessment of the entity's ability to continue as a going concern and may request management to revise its assessment. For example, when the auditor is aware of a significant delay between the date of approval of the financial statements and the date the financial statements are 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, the auditor discusses the matter with management and, depending on the facts and circumstances, may request management to revise its going concern assessment by extending the assessment period beyond the twelve months from the date of approval of the financial statements.

- A55. ISA 560 also 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.<sup>28</sup>

### **Evaluating the Audit Evidence Obtained and Concluding**

#### *Indicators of Possible Management Bias (Ref: Para. 30(a))*

- A56. Some degree of management bias is inherent in the judgments and assumptions management uses in its assessment of the entity's ability to continue as a going concern. 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.
- A57. 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.

#### **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.

- A58. 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,<sup>29</sup> 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).<sup>30</sup>

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<sup>28</sup> ISA 560, paragraphs 10-13

<sup>29</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraphs A133-A136

<sup>30</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 11

A59. 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.<sup>31</sup> 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. 33, 35(b)(i))

A60. 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 judgement by management, the applicable financial reporting framework may require additional disclosures to be provided in the financial statements related to the significant judgements made by management in concluding that there is no material uncertainty.

A61. Even when no material uncertainty exists, paragraph 33 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;
- Management's plans that mitigate the effect of these events or conditions;
- Significant judgments made by management as part of its assessment of the entity's ability to continue as a going concern; or
- The assumptions management makes about the future, and other sources of estimation uncertainty.

A62. 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

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<sup>31</sup> ISA 240, paragraph 25

and events in a manner that achieves fair presentation.<sup>32</sup> 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.

- A63. In accordance with ISA 705 (Revised),<sup>33</sup> 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. 34, 36(b))

- A64. Paragraph 34 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 34 may include disclosures about:

- 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. 33–34, 35(b)(i), 36(b))

- A65. In the public sector, the auditor may need to have regard to 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. 35–39)

- A66. 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.

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<sup>32</sup> ISA 700 (Revised), paragraph 14

<sup>33</sup> ISA 705 (Revised), paragraphs 6 and A7

A67. The statements required by paragraphs 35–37 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)<sup>34</sup> 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. 35)

A68. The auditor may provide additional information in the auditor's report that would supplement the statements required by paragraph 35(a). For example, to provide a reference to the relevant accounting policies or the notes in the financial statements.

A69. 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.

A70. 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 35(b). The auditor also may decide that providing the information required by paragraph 35(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 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.

A71. 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 35(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))

A72. 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. The auditor may describe one or more of the following elements:

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<sup>34</sup> ISA 700 (Revised), paragraphs 34 and 39.

- 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.

A73. 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.

A74. 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.

A75. 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.

A76. 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. 36–37)

A77. 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. 36)

A78. 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. 37)

A79. 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. 38)

A80. 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 38. ISA 705 (Revised) provides guidance on this issue.<sup>35</sup>

A81. Paragraph 38 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)<sup>36</sup> 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

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<sup>35</sup> ISA 705 (Revised), paragraph 10

<sup>36</sup> ISA 705 (Revised), paragraph 19

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. 39)

- A82. 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 39 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.
- A83. 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 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)<sup>37</sup> 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. 40)

- A84. The auditor may consider it appropriate to obtain specific written representations in addition to those required in paragraph 40 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 A51 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. 41)

- A85. ISA 260 (Revised)<sup>38</sup> explains that timely communication throughout the audit contributes to the achievement of robust two-way dialogue between those charged with governance and the auditor. However, 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 provides them with an opportunity to provide further clarification where necessary. This also

<sup>37</sup> ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

<sup>38</sup> ISA 260 (Revised), paragraph A49

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).

- A86. 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.
- 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).

- A87. 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. 42)

- A88. 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.

- A89. 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 A88. 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.<sup>39</sup> In such circumstances, the auditor may also decide to discuss the matter with those charged with governance.

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.

- A90. 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.
- A91. 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.

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<sup>39</sup> 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.

## Appendix

(Ref: Para. A66, A69, A76, A78–A79)

### 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)<sup>40</sup> 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.<sup>41</sup>
- 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.

<sup>40</sup> ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>41</sup> 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<sup>42</sup>

#### 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<sup>43</sup>

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<sup>42</sup> 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.

<sup>43</sup> 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).<sup>44</sup>]*

### **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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<sup>44</sup> 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<sup>45</sup>

#### 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.

#### *Events or Conditions That May Cast Significant Doubt on the Entity'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

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<sup>45</sup> 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.

separate opinion on these matters.

*[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<sup>46</sup>**

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).<sup>47</sup>]*

**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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<sup>46</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

<sup>47</sup> 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<sup>48</sup>

#### 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<sup>49</sup>

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<sup>48</sup> 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.

<sup>49</sup> 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).<sup>50</sup>]*

### **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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<sup>50</sup> 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<sup>51</sup>

#### 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*

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<sup>51</sup> 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.

to *Going Concern* 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.]*

**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<sup>52</sup>**

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).<sup>53</sup>]*

**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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<sup>52</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

<sup>53</sup> 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<sup>54</sup>

#### 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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<sup>54</sup> 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<sup>55</sup>**

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).<sup>56</sup>]*

## **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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<sup>55</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

<sup>56</sup> 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<sup>57</sup>

#### 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.]

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<sup>57</sup> 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.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>58</sup>**

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).<sup>59</sup>]*

**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]*

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<sup>58</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

<sup>59</sup> 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.

**PROPOSED INTERNATIONAL STANDARD ON SUSTAINABILITY  
ASSURANCE (ISSA) 5000 *GENERAL REQUIREMENTS FOR  
SUSTAINABILITY ASSURANCE ENGAGEMENTS***

**OBJECTIVES, DEFINITIONS AND REQUIREMENTS  
(CLEAN)**

## **Introduction**

### **Scope of this ISSA**

[Not yet drafted. To be discussed with the IAASB in June 2023.]

### **Effective Date**

[To be discussed with the IAASB in June 2023.]

## **Objectives**

1. In conducting a sustainability assurance engagement, the objectives of the practitioner are:
  - (a) To obtain either reasonable assurance or limited assurance, as appropriate, about whether the sustainability information is free from material misstatement;
  - (b) To express a conclusion regarding the outcome of the measurement or evaluation of the underlying subject matter through a written report that conveys either a reasonable assurance or a limited assurance conclusion and describes the basis for the conclusion; (Ref: Para. A1) and
  - (c) To communicate further as required by this ISSA and any other relevant ISSA.
2. In all cases when reasonable assurance or limited assurance, as appropriate, cannot be obtained and a qualified conclusion in the practitioner's assurance report is insufficient in the circumstances for purposes of reporting to the intended users, this ISSA requires that the practitioner disclaim a conclusion or withdraw (or resign) from the engagement, where withdrawal is possible under applicable law or regulation.

## **Definitions**

1. For purposes of this ISSA, the following terms have the meanings attributed below:
  - (a) **Assertions** - Representations by the entity, explicit or otherwise, that are embodied in the sustainability information, as used by the practitioner to consider potential misstatements that may occur. (Ref: Para. A1R)
  - (b) **Assurance engagement** - An engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users about the sustainability information. Each assurance engagement is either a:

- (i) Reasonable assurance engagement - An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's conclusion. The practitioner's conclusion is expressed in a form that conveys the practitioner's opinion on the outcome of the measurement or evaluation, including presentation and disclosure, of the underlying subject matter, against applicable criteria.
- (ii) Limited assurance engagement - An assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe the sustainability information is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner's professional judgment, meaningful. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the sustainability information to a degree that is clearly more than inconsequential.
- (c) Appropriate party(ies) – Management or those charged with governance, as appropriate, or the engaging party, if different.
- (d) Assurance skills and techniques – Those planning, evidence gathering, evidence evaluation, communication and reporting skills and techniques demonstrated by an assurance practitioner.
- (e) Comparative information – The sustainability information presented for one or more prior periods.
- (f) Criteria – The benchmarks used to measure or evaluate the underlying subject matter. The “applicable criteria” are the criteria used for the particular engagement. (Ref: Para. A2)
- (g) Disclosures – Specific sustainability information presented by the entity related to an aspect of a topic. (Ref: Para. A3)
- (h) Engagement circumstances – The broad context defining the particular engagement, which includes: the terms of the engagement; the scope of the assurance engagement and whether it is a reasonable assurance engagement or a limited assurance engagement; the topics, aspects of the topics and disclosures comprising the sustainability information; the applicable criteria; the information needs of the intended users; relevant characteristics of the entity and its reporting boundary; the characteristics of the entity's management and those charged with governance; and other matters that may have a significant effect on the engagement.
- (i) Engagement leader – The partner or other staff member appointed by the firm, who is responsible for the engagement and its performance, and for the assurance report that is issued on behalf of the firm, and where required, has the appropriate authority from a professional, legal or regulatory body. “Engagement leader” should be read as referring to its public sector equivalents where relevant. (Ref: Para. A4-A5)
- (j) Engagement risk – The risk that the practitioner expresses an inappropriate conclusion when the sustainability information is materially misstated. (Ref: Para. A6-A8)

- (k) Engaging party - The party(ies) that engages the practitioner to perform the assurance engagement, which may be management or those charged with governance, or another party.
- (l) Engagement team - The engagement leader and other personnel performing the engagement, and any other individuals who perform procedures on the engagement, excluding a practitioner's external expert.
- (m) Entity - The legal entity, economic entity, or the identifiable portion of a legal or economic entity, or combination of legal or other entities or portions of those entities to which the sustainability information relates. (Ref: Para. A9)
- (n) Evidence – Information, to which procedures have been applied, that the practitioner uses to draw conclusions that form the basis for the practitioner's assurance conclusion and report. For purposes of the ISSAs:
  - (i) Sufficiency of evidence is the measure of the quantity of evidence.
  - (ii) Appropriateness of evidence is the measure of the quality of evidence.
- (o) Firm - A sole practitioner, partnership or corporation or other entity of individual practitioners. "Firm" should be read as referring to its public sector equivalents where relevant. (Ref: Para. A10)
- (p) 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.
- (q) Further procedures - Procedures performed in response to areas in the sustainability information where material misstatements are likely to arise (limited assurance) and assessed risks of material misstatement (reasonable assurance), including tests of controls and substantive procedures, such as tests of details and analytical procedures.
- (r) Historical financial information - Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
- (s) Intended users - The individual(s) or organization(s), or group(s) thereof that the practitioner expects will use the sustainability assurance report. In some cases, there may be intended users other than those to whom the sustainability assurance report is addressed.
- (t) Internal audit function - A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes.
- (u) Management - The person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner–manager.
- (v) Management's expert - An individual or organization possessing expertise in a field other than assurance, whose work is used by the entity to assist the entity in preparing the sustainability information.

- (w) Misstatement - A difference between the sustainability information and the appropriate measurement or evaluation of the underlying subject matter in accordance with the applicable criteria. Misstatements can arise from error or fraud, may be qualitative or quantitative, and include omissions.
- (x) Misstatement of the other information - A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information).
- (y) Network – A larger structure:
  - (i) That is aimed at cooperation, and
  - (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality management policies or procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.
- (z) Network firm - A firm or entity that belongs to the firm's network.
- (aa) Other information - Information (other than the sustainability information and the assurance report thereon) which is included in a document or documents containing the sustainability information and the assurance report thereon.
- (bb) Partner - Any individual with authority to bind the firm with respect to the performance of a professional services engagement. (Ref: Para. A11)
- (cc) Performance materiality - The amount or amounts set by the practitioner at less than the amount considered to be material for quantitative disclosures for purposes of performing procedures on those disclosures.
- (dd) Personnel – Partners and staff in the firm.
- (ee) Practitioner - The individual(s) conducting the engagement (usually the engagement leader or other members of the engagement team, or, as applicable, the firm). Where this ISSA expressly intends that a requirement or responsibility be fulfilled by the engagement leader, the term “engagement leader” rather than “practitioner” is used.
- (ff) Practitioner's expert - An individual or organization possessing expertise in a field other than assurance, whose work in that field is used by the practitioner to assist the practitioner in obtaining sufficient appropriate evidence. A practitioner's expert may be either a practitioner's internal expert (who is a partner or staff, including temporary staff, of the practitioner's firm or a network firm), or a practitioner's external expert.
- (gg) Professional judgment - The application of relevant training, knowledge, and experience, within the context provided by assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.
- (hh) Professional skepticism - An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.

- (ii) Professional standards - International Standards on Sustainability Assurance (ISSAs) and relevant ethical requirements.
- (jj) Relevant ethical requirements - Principles of professional ethics and ethical requirements that are applicable to practitioners when undertaking assurance engagements on sustainability information. For professional accountants, relevant ethical requirements ordinarily comprise the provisions of the IESBA Code related to assurance engagements [on sustainability information], together with national requirements that are more restrictive. For other practitioners who are not professional accountants, relevant ethical requirements comprise the ethical requirements in relevant law, regulation or professional requirements related to assurance engagements on sustainability information, that are at least as demanding as the IESBA Code.
- (kk) Reporting boundary – Activities, operations, relationships or resources to be included in the entity's sustainability information. (Ref: Para. A12-A13)
- (ll) Risk of material misstatement – The risk that the sustainability information is materially misstated prior to the engagement.
- (mm) Risk procedures – The procedures designed and performed to:
  - (i) In a limited assurance engagement, identify disclosures where material misstatements are likely to arise, whether due to fraud or error; and
  - (ii) In a reasonable assurance engagement, identify and assess the risks of material misstatement, whether due to fraud or error.
- (nn) Staff – Professionals, other than partners, including any experts the firm employs.
- (oo) Sustainability competence - Competence in the underlying subject matter of the sustainability assurance engagement and in its measurement or evaluation.
- (pp) Sustainability information - Information that results from measuring or evaluating the underlying subject matter against the applicable criteria. Sustainability information is the equivalent of “subject matter information” in other IAASB assurance standards.
- (qq) Those charged with governance - The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the sustainability reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner–manager.
- (rr) Uncorrected misstatements - Misstatements that the practitioner has accumulated during the assurance engagement and that have not been corrected.
- (ss) Underlying subject matter - What is being measured or evaluated in accordance with the applicable criteria.

## Requirements

### Part 1: Conduct of an Assurance Engagement in Accordance with this ISSA

#### *Complying with this ISSA*

1. The practitioner shall comply with this ISSA when conducting an assurance engagement on sustainability information. [ISAE 3000 (Revised)<sup>1</sup> Para. 14]
2. The practitioner shall not represent compliance with this or any other ISSA unless the practitioner has complied with the requirements of this ISSA and any other ISSAs relevant to the engagement. (Ref: Para. A1-A2) [ISAE 3000 (Revised) Para. 15, ISAE 3410<sup>2</sup> Para. 15]

#### *Text of an ISSA*

3. The practitioner shall have an understanding of the entire text of an ISSA, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref: Para. A3-A8) [ISAE 3000 (Revised) Para. 16]

#### *Complying with Relevant Requirements*

4. The practitioner shall comply with each requirement of this ISSA and of any other relevant ISSA unless, in the circumstances of the assurance engagement, the requirement is not relevant because it is conditional and the condition does not exist. Requirements that apply to only limited assurance or reasonable assurance engagements have been presented in a columnar format with the letter “L” (limited assurance) or “R” (reasonable assurance), respectively, after the paragraph number. (Ref: Para. A9) [ISAE 3000 (Revised) Para. 17]
5. In exceptional circumstances, the practitioner may judge it necessary to depart from a relevant requirement in an ISSA. In such circumstances, the practitioner shall perform alternative procedures to achieve the aim of that requirement. The need for the practitioner to depart from a relevant requirement is expected to arise only when the requirement is for a specific procedure to be performed and, in the specific circumstances of the assurance engagement, that procedure would be ineffective in achieving the aim of the requirement. [ISAE 3000 (Revised) Para. 18]

#### *Failure to Achieve an Objective*

6. If an objective in this ISSA or any other ISSAs relevant to the engagement cannot be achieved, the practitioner shall evaluate whether this requires the practitioner to modify the practitioner’s conclusion or withdraw from the assurance engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective in this or any other relevant ISSA represents a significant matter requiring documentation in accordance with Part 4 paragraph 8 of this ISSA. [ISAE 3000 (Revised) Para. 19]

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<sup>1</sup> ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

<sup>2</sup> ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

## Part 2: Fundamental Concepts, General Principles and Overarching Requirements

### *Relevant Ethical Requirements, Including Those Related to Independence*

1. The practitioner shall comply with relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the assurance engagement. (Ref: Para. A1-A3) [ISAE 3000 (Revised) Para. 20]

### *Acceptance and Continuance*

2. The practitioner shall accept or continue the engagement only when:
  - (a) The practitioner has no reason to believe that relevant ethical requirements, including independence, will not be satisfied; (Ref: Para. A1-A2)
  - (b) The practitioner has determined that those persons who are to perform the engagement collectively have the appropriate competence and capabilities, including having sufficient time, to perform the engagement (see also paragraph 17); and
  - (c) The basis upon which the engagement is to be performed has been agreed, through:
    - (i) Establishing that the preconditions for an assurance engagement are present (see also Part 3 paragraph 2); and
    - (ii) Confirming that there is a common understanding between the practitioner and the engaging party of the terms of the engagement, including the practitioner's reporting responsibilities.

[ISAE 3000 (Revised) Para. 22]

3. If the engaging party imposes a limitation on the scope of the practitioner's work in the terms of a proposed engagement such that the practitioner believes the limitation will result in the practitioner disclaiming a conclusion on the sustainability information, the practitioner shall not accept such an engagement as an assurance engagement, unless required by law or regulation to do so. [ISAE 3000 (Revised) Para. 26]

### *Assurance Skills and Techniques, Professional Skepticism and Professional Judgment*

4. The practitioner shall apply assurance skills and techniques as part of an iterative, systematic engagement process. [ISAE 3000 (Revised) Para. 39]
5. The practitioner shall plan and perform an engagement with professional skepticism, recognizing that circumstances may exist that cause the sustainability information to be materiality misstated. (Ref: Para. A4-A9) [ISAE 3000 (Revised) Para. 37]
6. The practitioner shall exercise professional judgment in planning and performing an assurance engagement, including determining the nature, timing and extent of procedures. (Ref: Para. A10-A12) [ISAE 3000 (Revised) Para. 38]

### *Firm-level Quality Management*

7. The engagement leader shall be a member of a firm that applies the ISQMs, or other professional requirements, or requirements in law or regulation, that are at least as demanding as the ISQMs. (Ref: Para. A13-A18) [ISAE 3000 (Revised) Para. 31(a)]

## Engagement-level Quality Management

### Overall Responsibility for Managing and Achieving Quality

8. The engagement leader shall take overall responsibility for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement such that the engagement leader has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement. (Ref: Para. A19-A22) [ISAE 3000 (Revised) Para. 33 and ISA 220 (Revised)<sup>3</sup> Para.13]
9. If the engagement leader assigns the design or performance of procedures, tasks or actions related to a requirement of this ISSA to other members of the engagement team to assist the engagement leader in complying with the requirements of this ISSA, the engagement leader shall continue to take overall responsibility for managing and achieving quality on the audit engagement through direction and supervision of those members of the engagement team, and review of their work. (Ref: Para. A20, A23-A23A) [ISA 220 (Revised) Para.15]

### Characteristics and Responsibilities of the Engagement Leader

10. The engagement leader shall have: (Ref: Para. A24-A27)
  - Competence in assurance skills and techniques developed through extensive training and practical application;
  - An understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the assurance engagement; and
  - Sufficient competence in the underlying subject matter and its measurement or evaluation in accordance with the applicable criteria.

[ISAE 3000 (Revised) Para. 31(b)-(c)]

### Acceptance and Continuance

11. The engagement leader shall determine that the firm's policies or procedures for the acceptance and continuance of client relationships and assurance engagements have been followed by the firm and that conclusions reached in this regard are appropriate in accepting the engagement in accordance with paragraph 2. (Ref: Para. A28-A29) [Moved from Part 3, paragraph 8] [ISAE 3000 (Revised) Para. 21]
12. If the engagement leader obtains information that may have caused the firm to decline the engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement, the engagement leader shall communicate that information promptly to the firm, so that the firm and the engagement leader can take the necessary action. (Ref: Para. A30) [ISAE 3000 (Revised) Para. 23]

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<sup>3</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

#### Relevant Ethical Requirements, Including Those Related to Independence

13. The engagement leader shall take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the engagement, and the firm's related policies or procedures, including those that address: (Ref: Para. A31-A33)
- (a) Identifying, evaluating and addressing threats to compliance with relevant ethical requirements, including those related to independence;
  - (b) Circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of breaches; and
  - (c) The responsibilities of members of the engagement team when they become aware of an instance of non-compliance with laws and regulations by the entity.

[ISA 220 (Revised) Para.17]

14. If matters come to the engagement leader's attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement leader shall evaluate the threat through complying with the firm's policies or procedures, using relevant information from the firm, the engagement team or other sources, and take appropriate action. [ISA 220 (Revised) Para.18]
15. Throughout the engagement, the engagement leader shall remain alert, through observation and making inquiries as necessary, for evidence of breaches of relevant ethical requirements by members of the engagement team. If matters come to the engagement leader's attention through the firm's system of quality management or otherwise that indicate that members of the engagement team have breached relevant ethical requirements, the engagement leader, in consultation with others in the firm, shall determine the appropriate action. (Ref: Para. A34) [ISAE 3000 (Revised) Para. 34]

#### Engagement Resources

16. The engagement leader shall determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the engagement, the firm's policies or procedures, and any changes that may arise during the engagement. (Ref: Para. A35-A36) [ISA 220 (Revised) Para. 25]
17. The engagement leader shall determine that members of the engagement team, and any practitioner's external experts, collectively have the appropriate competence and capabilities in assurance skills and techniques and the applicable underlying subject matter, and sufficient time, to perform the engagement. (Ref: Para. A37-A41) [ISA 220 (Revised) Para. 26]
18. The engagement leader shall determine whether the practitioner will be able to be sufficiently and appropriately involved in work to be performed by: (Ref: Para. A42-A43)
- (a) A practitioner's external expert; and
  - (b) Another practitioner.

[ISAE 3000 (Revised) Para. 32]

19. If, as a result of complying with the requirements in paragraphs 16-18, the engagement leader determines that resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement, the engagement leader shall take appropriate action, including communicating with appropriate individuals in the firm about the need to assign or make available additional or alternative resources to the engagement. (Ref: Para. A44-A46) [ISA 220 (Revised) Para. 27]
20. The engagement leader shall take responsibility for using the resources assigned or made available to the engagement team appropriately, given the nature and circumstances of the engagement. (Ref: Para. A47) [ISA 220 (Revised) Para. 28]

#### Direction, Supervision and Review

21. The engagement leader shall take responsibility for the direction and supervision of the members of the engagement team and the review of their work. (Ref: Para. A48-A50) [ISA 220 (Revised) Para. 29]
22. The engagement leader shall determine that the nature, timing and extent of direction, supervision and review is: (Ref: Para. A51-A55)
  - (a) Planned and performed in accordance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements; and
  - (b) Responsive to the nature and circumstances of the engagement and the resources assigned or made available to the engagement team by the firm.[ISA 220 (Revised) Para. 30]
23. The engagement leader shall review engagement documentation at appropriate points in time during the engagement, including documentation relating to: (Ref: Para. A56-A59)
  - (a) Significant matters;
  - (b) Areas of significant judgment, including those relating to difficult or contentious matters identified during the engagement, and the conclusions reached; and
  - (c) Other matters that, in the engagement leader's professional judgment, are relevant to the engagement leader's responsibilities.[ISA 220 (Revised) Para. 31]
24. The engagement leader shall review, prior to their issuance, formal written communications to management, those charged with governance or regulatory authorities. (Ref: Para. A60) [ISA 220 (Revised) Para. 34]

#### Monitoring and Remediation

25. The engagement leader shall: (Ref: Para. A61)
  - (a) Consider information from the firm's monitoring and remediation process, as communicated by the firm and, if applicable, other network firms; and
  - (b) Determine whether the information may affect the engagement and, if so, take appropriate action. [ISAE 3000 (Revised) Para. 35 and updated based on ISA 220 (Revised) Para. 39]

## Engagement Quality Review

26. For those engagements for which an engagement quality review is required in accordance with ISQM 1<sup>4</sup> or the firm's policies or procedures, the engagement leader shall discuss significant matters and significant judgments arising during the engagement, including those identified during the engagement quality review, with the engagement quality reviewer. [Last part of sentence moved to Part 8, paragraph 29(e)] [ISAE 3000 (Revised) Para. 36 modified by ISA 220 (Revised) Para. 36(c)]

## Work Performed by Others

### Work To Be Performed by a Practitioner's External Expert

27. If the practitioner plans to use the work of a practitioner's external expert, the practitioner shall: (Ref: Para. A62-A65)
- (a) Evaluate whether the expert has the necessary competence, capabilities and objectivity for the practitioner's purposes. (Ref: Para. A66-A68)
  - (b) When evaluating objectivity, inquire regarding interests and relationships that may create a threat to that expert's objectivity;
  - (c) Obtain a sufficient understanding of the field of expertise of the expert to determine the nature, scope and objectives of that expert's work for the practitioner's purposes; and (Ref: Para. A69)
  - (d) Agree with the expert on the nature, scope and objectives of that expert's work. (Ref: Para. A70)

[ISAE 3000 (Revised) Para. 52, including addition from ISA 620<sup>5</sup> Para. 10]

### Work Already Performed by Another Practitioner for a Different Purpose

28. If the practitioner plans to use work already performed by another practitioner, the practitioner shall: (Ref: Para. A71, A75)
- (a) Evaluate whether that practitioner has the necessary competence, capabilities and objectivity for the practitioner's purposes. (Ref: Para. A72)
  - (b) When evaluating that practitioner's objectivity, inquire regarding interests and relationships that may create a threat to that practitioner's objectivity;
  - (c) Determine whether that practitioner applies a system of quality management;
  - (d) Evaluate whether the nature, scope and objectives of that practitioner's work are appropriate for the practitioner's purposes; and (Ref: Para. A73)
  - (e) Communicate with that practitioner about the findings from their work. (Ref: Para. A74)

[ISAE 3000 (Revised) Para 55]

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<sup>4</sup> ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

<sup>5</sup> ISA 620, *Using the Work of an Auditor's Expert*

Work Performed by the Internal Audit Function

29. If the practitioner plans to use the work of the internal audit function, the practitioner shall: (Ref: Para. A76-A78)
- (a) Evaluate the extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors;
  - (b) Evaluate the level of competence of the internal audit function in the underlying subject matter;
  - (c) Evaluate whether the internal audit function applies a systematic and disciplined approach, including a system of quality management; and
  - (d) Determine whether, and to what extent, to use specific work of the internal audit function.

[ISAE 3000 (Revised) Para. 55]

*Fraud*

30. The practitioner shall maintain professional skepticism throughout the engagement, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the practitioner's past experience of the honesty and integrity of the entity's management and those charged with governance. (Ref: Para. A79-A81) [ISA 240 (Revised)<sup>6</sup> Para. 13]

*Law and Regulation*

31. The practitioner shall obtain a general understanding of: (Ref: Para. A81A-A82)
- (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates, in the context of the entity's sustainability information; and
  - (b) How the entity is complying with that framework.

[ISA 250 (Revised)<sup>7</sup> Para. 13]

32. The practitioner shall perform the following procedures to help identify instances of non-compliance with laws and regulations that may have a material effect on the sustainability information:
- (a) Inquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and regulations; and
  - (b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities.

[ISA 250 (Revised) Para. 15]

33. During the engagement, the practitioner shall remain alert to the possibility that other procedures applied may bring instances of non-compliance or suspected non-compliance with law or regulation may come to the practitioner's attention. [ISA 250 (Revised) Para. 16]
34. In the absence of identified or suspected non-compliance, the practitioner is not required to perform procedures regarding the entity's compliance with laws and regulations, other than those set out in paragraphs 32-33. [ISA 250 (Revised) Para. 18]

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<sup>6</sup> ISA 240 (Revised), *Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements*

<sup>7</sup> ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

35. If the practitioner becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the practitioner shall obtain:
- (a) An understanding of the nature of the act and the circumstances in which it has occurred; and
  - (b) Further information to evaluate the possible effect on the sustainability information.

[ISA 250 (Revised) Para. 19]

36. The practitioner shall evaluate the implications of identified or suspected non-compliance in relation to other aspects of the engagement, including the practitioner's risk procedures and the reliability of written representations, and take appropriate action. (Ref: Para. A83) [ISA 250 (Revised) Para. 22]

*Communication with Management, Those Charged with Governance and Others*

37. The practitioner shall determine whether, pursuant to the terms of the engagement and other engagement circumstances, any matters have come to the attention of the practitioner to be communicated with the engaging party, those charged with governance or others. (Ref: Para. A84-A92) [ISAE 3000 (Revised) Para. 78]

*Documentation*

38. The practitioner shall include in the engagement documentation: (Ref: Para. A93)
- (a) Issues identified with respect to compliance with relevant ethical requirements and how they were resolved;
  - (b) Conclusions on compliance with independence requirements that apply to the engagement, and any relevant discussions with the firm that support these conclusions;
  - (c) Conclusions reached regarding the acceptance and continuance of client relationships and assurance engagements;
  - (d) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the engagement; and
  - (e) If the engagement is subject to an engagement quality review, that the engagement quality review has been completed on or before the date of the practitioner's report.

[ISAE 3410 Para. 67 and ISA 220 (Revised) Para. 41]

39. The practitioner shall also include in the engagement documentation identified or suspected non-compliance with laws and regulations and:
- (a) The procedures performed, the significant professional judgments made and the conclusions reached thereon; and
  - (b) The discussions of significant matters related to the non-compliance with management, those charged with governance and others, including how management and, where applicable, those charged with governance have responded to the matter.

[ISA 250 (Revised) Para. 30]

### **Part 3: Acceptance and Continuance of the Assurance Engagement**

#### *Establishing the Preconditions are Present*

##### Obtaining a Preliminary Knowledge of the Engagement Circumstances

1. To provide an appropriate basis for determining whether the preconditions for an assurance engagement are present, the practitioner shall obtain a preliminary knowledge of the engagement circumstances, including: (Ref: Para. A1-A6)
  - (a) With respect to the sustainability information expected to be reported:
    - (i) The topics, aspects of the topics and disclosures; and
    - (ii) Reporting boundary(ies).
  - (b) Whether the scope of the proposed assurance engagement encompasses all or part of the sustainability information in (a). (Ref: Para. A6A-A6C)

##### Determining Whether the Preconditions are Present

2. The practitioner shall determine whether the preconditions for an assurance engagement are present, based on the preliminary knowledge of the engagement circumstances and discussion with the appropriate party(ies). In making this determination, the practitioner shall evaluate whether: (Ref: Para. A6D)
  - (a) The roles and responsibilities of management, those charged with governance and the engaging party, if different, are suitable in the circumstances; (Ref: Para. A16-A19)
  - (b) The engagement exhibits all of the following characteristics:
    - (i) The underlying subject matter is appropriate; (Ref: Para. A20-A21)
    - (ii) The criteria that the practitioner expects to be applied in the preparation of the sustainability information are suitable for the engagement circumstances. (Ref: Para. A22-A35)
    - (iii) The criteria that the practitioner expects to be applied in the preparation of the sustainability information will be available to the intended users; (Ref: Para. A42A-A42B)
    - (iv) The practitioner expects to be able to obtain the evidence needed to support the practitioner's conclusion; (Ref: Para. A42C-A42F)
    - (v) The practitioner's conclusion, in the form appropriate to either a reasonable assurance engagement or a limited assurance engagement, is to be contained in a written report;
    - (vi) A rational purpose, including, in the case of a limited assurance engagement, that the practitioner expects to be able to obtain a meaningful level of assurance; (Ref: Para. A43-A46; A47L-A49L) and
  - (c) The scope of the sustainability information expected to be reported and scope of the assurance engagement are appropriate, when evaluating whether the engagement exhibits the characteristics in (b) above. (Ref: Para. A49A-A49E)

[ISAE 3000 (Revised) Para. 24; ISAE 3410 Para.17(a)]

### Roles and Responsibilities

3. When evaluating whether the roles and responsibilities are suitable in the circumstances in accordance with paragraph 2(a), the practitioner shall evaluate whether management, and those charged with governance, when appropriate, have a reasonable basis for the sustainability information. (Ref: Para. A16-A19)

[Based on ISAE 3000 (Revised) Para. A37-A39, the elements of an assurance engagement in the Assurance Framework and the definition of assurance engagement]

### Appropriate Underlying Subject Matter

4. When evaluating the appropriateness of the underlying subject matter in accordance with paragraph 2(b)(i), the practitioner shall consider whether the underlying subject matter is identifiable and capable of consistent measurement or evaluation against the criteria, such that the resulting sustainability information can be subjected to procedures for obtaining sufficient appropriate evidence. (Ref: Para. A20-A21) [ISAE 3000 (Revised) Para. 24(b)(i), A40-41]

### Suitability and Availability of Criteria

5. When evaluating whether the criteria are suitable and will be available to the intended users in accordance with paragraph 2(b)(ii) and (iii), the practitioner shall evaluate: (Ref: Para. A22-A42B)
- (a) The sources of the criteria, including whether they are framework criteria, entity-developed criteria or a combination of both; (Ref: Para. A22-A27)
  - (b) Whether the criteria exhibit the following characteristics: (Ref: Para. A36-A42) [Moved from paragraph 6]
    - (i) Relevance; (Ref: Para. A36-A37)
    - (ii) Completeness; (Ref: Para. A38)
    - (iii) Reliability; (Ref: Para. A39)
    - (iv) Neutrality; (Ref: Para. A40-A41) and
    - (v) Understandability. (Ref: Para. A42)[ISAE 3000 (Revised) Para. 24(b)(ii)]
  - (c) Whether there are criteria for all of the sustainability information within the scope of the assurance engagement; (Ref: Para. A42A) and
  - (d) How the criteria will be made available to the intended users. (Ref: Para. A42A and A42B)
- [ISAE 3000 (Revised) Para. 24(b)(ii)-(iii)]
6. [Moved to paragraph 5(b)]

### Rational Purpose

7. In evaluating whether the engagement exhibits a rational purpose in accordance with paragraph 2(b)(vi), the practitioner shall consider whether the engagement as a whole will be useful and not misleading to intended users. (Ref: Para. A43-A46; A47L-A49L) [ISAE 3000 (Revised) Para. A56]

Appropriateness of the Scope of the Sustainability Information Expected to be Reported

- 7A. In evaluating the appropriateness of the scope of sustainability information expected to be reported as required by paragraph 2(c), the practitioner shall consider whether the sustainability information expected to be reported excludes significant information required by framework criteria applied. (Ref: Para. A49A-A49C)

Appropriateness of the Scope of the Assurance Engagement

- 7B. In evaluating the appropriateness of the scope of the assurance engagement as required by paragraph 2(c), the practitioner shall consider whether the scope of the assurance engagement excludes sustainability information expected to be reported. (Ref: Para. A49D-A49E)

*Deciding Whether to Accept or Continue the Assurance Engagement*

- 7C. If the preconditions for an assurance engagement are not present, the practitioner shall discuss the matter with the engaging party. If changes cannot be made to meet the preconditions, the practitioner shall not accept the engagement as an assurance engagement unless required by law or regulation to do so. However, an engagement conducted under such circumstances does not comply with this ISSA. Accordingly, the practitioner shall not include any reference within the assurance report to the engagement having been conducted in accordance with this ISSA.

[ISAE 3000 Para. 25]

8. [Moved to Part 2, paragraph 11]  
9. [Moved to Part 2, paragraph 2 and 3]

*Assurance Report Prescribed by Law or Regulation*

10. If law or regulation prescribes the layout or wording of the assurance report, the practitioner shall evaluate:
- (a) Whether intended users may misunderstand the assurance conclusion; and
  - (b) If so, whether additional explanation in the assurance report can mitigate the possible misunderstanding.

If the practitioner concludes that additional explanation in the assurance report cannot mitigate the possible misunderstanding, the practitioner shall not accept the assurance engagement, unless required by law or regulation to do so. An assurance engagement conducted in accordance with such law or regulation does not comply with this ISSA. Accordingly, the practitioner shall not include any reference within the assurance report to the assurance engagement having been conducted in accordance with this ISSA. [ISAE 3000 (Revised) Para. 30]

11. [Moved to Part 5, paragraph 3]  
12. [Moved to Part 2, paragraph 12]

13 [Moved to Part 5, paragraph 4A]

### *Terms of the Assurance Engagement*

#### *Agreeing the Terms of the Assurance Engagement*

14. The practitioner shall agree the terms of the assurance engagement with the appropriate party(ies). The agreed terms of the assurance engagement shall be specified in sufficient detail in an engagement letter or other suitable form of written agreement, written confirmation, or in law or regulation, and shall include: (Ref: Para. A55-A55A)
- (a) The following matters related to the scope of the assurance engagement:
    - (i) The sustainability information within the scope of the assurance engagement, and the sustainability information that is not within the scope of the assurance engagement;
    - (ii) The reporting boundary(ies) within the scope of the assurance engagement; and
    - (ii) Whether the engagement is a limited assurance engagement or reasonable assurance engagement, or if it is a combination of both, which sustainability information will be within the scope of limited assurance, and which sustainability information will be within the scope of reasonable assurance
  - (b) The responsibilities of the practitioner;
  - (c) The responsibilities of management or those charged with governance, as appropriate, for:
    - (i) The preparation of the sustainability information in accordance with the applicable criteria;
    - (ii) Referring to or describing in its sustainability information, the applicable criteria it has used and, when it is not readily apparent from the engagement circumstances, who developed them;
    - (iii) Designing, implementing and maintaining such processes, systems or internal control that the entity determines are necessary to enable the preparation of sustainability information in accordance with the applicable criteria that is free from material misstatement, whether due to fraud or error;
  - (iv) Providing the practitioner with:
    - a. Access to all information of which management is aware that is relevant to the preparation of the sustainability information;
    - b. Additional information that the assurance practitioner may request for the purpose of the assurance engagement; and
    - c. Unrestricted access to persons within the entity, from whom the practitioner determines it necessary to obtain evidence;
  - (d) Reference to the expected form and content of the report or reports to be issued by the practitioner and a statement that there may be modifications to that report in certain circumstances; and
  - (e) An acknowledgement that management agrees to provide written representations at the conclusion of the assurance engagement.

[ISAE 3000 (Revised) Para. 27, A91, ISAE 3410 Para.17(c) and 18, ISA 210<sup>8</sup> Para. 6(b)(iii)]

15. On recurring assurance engagements, the practitioner shall evaluate whether circumstances require the terms of the assurance engagement to be revised and whether there is a need to remind the appropriate party(ies) of the existing terms of the assurance engagement. (Ref: Para. A55-A55A)  
[ISAE 3000 (Revised) Para. 28]

#### Changing the Terms of the Assurance Engagement

16. The practitioner shall not agree to a change in the terms of the assurance engagement, including from a reasonable assurance engagement to a limited assurance engagement (i.e., to a lower level of assurance), when there is no reasonable justification for doing so. If the practitioner is unable to agree to a request to change in the terms of the assurance engagement and is not permitted by the appropriate party(ies) to continue the assurance engagement, the practitioner shall: (Ref: Para. A56-A57)
- (a) Withdraw from the assurance engagement, when 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.

[ISA 210 Para.14 and 17]

17. If the terms of the assurance engagement are changed: (Ref: Para. A56-A57)
- (a) The practitioner and the appropriate party(ies), shall agree on and record the new terms of the assurance engagement in an engagement letter or other suitable form of written agreement; and
  - (b) The practitioner shall not disregard evidence that was obtained prior to the change.

[ISA 210 Para. 16, ISAE 3000 (Revised) Para. 29, ISA 210 Para.17]

### Part 4: Evidence and Documentation

#### *Designing and Performing Procedures to Obtain Sufficient Appropriate Evidence*

1. For the purpose of obtaining sufficient appropriate evidence, the practitioner shall design and perform procedures (Ref: Para. A1-A2):
- (a) In a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory; and (Ref: Para. A3-A4)
  - (b) The nature, timing and extent of which are appropriate in the circumstances to provide evidence to meet the intended purpose of those procedures. (Ref: Para. A5-A18)

[ED-500<sup>9</sup> Para. 8]

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<sup>8</sup> ISA 210, *Agreeing the Terms of Audit Engagements*

<sup>9</sup> ED-500, Proposed International Standard on Auditing 500 (Revised), *Audit Evidence*

*Information Intended to be Used as Evidence*

2. When designing and performing procedures, the practitioner shall evaluate the relevance and reliability of information intended to be used as evidence. (Ref: Para. A19-A36) [ISAE 3000 (Revised) Para. 50]

*Work Performed by a Management's Expert*

3. If information intended to be used as evidence has been prepared by a management's expert, as part of the practitioner's evaluation in accordance with paragraph 2, the practitioner shall, to the extent necessary having regard to the significance of that expert's work for the practitioner's purposes: (Ref: Para. A37)
  - (a) Evaluate the competence, capabilities and objectivity of that expert; (Ref: Para. A38-A39)
  - (b) Obtain an understanding of the work performed by that expert; and (Ref: Para. A40)
  - (c) Obtain an understanding about how the information prepared by that expert has been used by management in the preparation of the sustainability information. (Ref: Para. A41)[ISAE 3000 (Revised) Para. 54, including (c) from ED-500 Para. 10]

*Doubts About the Relevance and Reliability of Information Intended to be Used as Evidence*

4. If conditions identified during the assurance engagement cause the practitioner to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the practitioner, the practitioner shall investigate further and determine the effect on the rest of the evidence obtained. (Ref: Para. A42-A44) [ISA 240 Para. 14]
5. If the practitioner has doubts about the relevance or reliability of information intended to be used as evidence, the practitioner shall: (Ref: Para. A45)
  - (a) Determine whether modifications or additions to procedures are necessary to resolve the doubts; and
  - (b) If the doubts cannot be resolved, consider the effect, if any, on other aspects of the engagement, including whether such doubts indicate a risk of material misstatement due to fraud.[ED-500 Para. 12]

6. [Moved to Part 8 para. 24]

7. [Moved to Part 8 para. 25]

*Documentation*

*Form, Content and Extent of Assurance Engagement Documentation*

8. The practitioner shall prepare on a timely basis assurance engagement documentation that provides a record of the basis for the assurance report that is sufficient and appropriate to enable a practitioner experienced in sustainability assurance, having no previous connection with the assurance engagement, to understand: (Ref: Para. A53-A55)

- (a) The nature, timing and extent of the procedures performed to comply with this ISSA, other relevant ISSAs and applicable legal and regulatory requirements;
- (b) The results of the procedures performed, and the evidence obtained; and
- (c) Significant matters arising during the assurance engagement, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (Ref: Para. A56-A58)

[ISAE 3000 (Revised) Para. 79]

9. In documenting the nature, timing and extent of procedures performed, the practitioner shall record: (Ref: Para. A59-A60)
- (a) The identifying characteristics of the specific items or matters tested;
  - (b) Who performed the assurance engagement work and the date such work was completed; and
  - (c) Who reviewed the assurance engagement work performed and the date and extent of such review.

[ISAE 3410 Para. 65]

10. The assurance engagement documentation prepared in accordance with paragraph 8 shall also include: (Ref: Para. A61-A62)
- (a) Discussions of significant matters with management, those charged with governance and others, including the nature of the significant matters discussed, and when and with whom the discussions took place; [ISAE 3410 Para. 66]
  - (b) If the practitioner identifies information that is inconsistent with the practitioner's final conclusion regarding a significant matter, how the practitioner addressed the inconsistency. [ISAE 3000 (Revised) Para. 80]
  - (c) Issues identified with respect to compliance with relevant ethical requirements and how they were resolved; [ISAE 3410 Para. 67]
  - (d) Conclusions on compliance with independence requirements that apply to the assurance engagement, and any relevant discussions with the firm that support these conclusions; [ISAE 3410 Para. 67]
  - (e) Conclusions reached regarding the acceptance and continuance of client relationships and assurance engagements, including with respect to the preconditions for an assurance engagement; and [ISAE 3410 Para. 67]
  - (f) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the assurance engagement. [ISAE 3410 Para. 67]

## Departure from a Relevant Requirement

11. If, in exceptional circumstances, the practitioner judges it necessary to depart from a relevant requirement in this ISSA, the practitioner shall document how the alternative procedures performed achieve the aim of that requirement, and the reasons for the departure. (Ref: Para. A63-A64)

[ISA 230<sup>10</sup> Para. 12]

## Matters Arising After the Date of the Practitioner's Report

12. If, in exceptional circumstances, the practitioner performs new or additional procedures or draws new conclusions after the date of the practitioner's report, the practitioner shall document: (Ref: Para. A65)

- (a) The circumstances encountered;
- (b) The new or additional procedures performed, evidence obtained, and conclusions reached, and their effect on the assurance report; and
- (c) When and by whom the resulting changes to assurance engagement documentation were made and reviewed.

[ISAE 3410 Para. 68]

## Assembly of the Final Engagement File

13. The practitioner shall assemble the assurance engagement documentation in an engagement file and complete the administrative process of assembling the final engagement file on a timely basis after the date of the assurance report. After the assembly of the final engagement file has been completed, the practitioner shall not delete or discard engagement documentation of any nature before the end of its retention period. (Ref: Para. A66-A68) [ISAE 3000 (Revised) Paras. 81-82]
14. In circumstances other than those envisaged in paragraph 12 when the practitioner finds it necessary to modify existing engagement documentation or add new engagement documentation after the assembly of the final engagement file has been completed, the practitioner 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.

15L. [Moved to Part 6, Paragraph 20L]	15R. [Moved to Part 6, Paragraph 20R]
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## Part 5: Planning

### Planning Activities

- 1. [Deleted]
- 2. [Deleted]

<sup>10</sup> ISA 230, *Audit Documentation*

3. The practitioner shall plan the assurance engagement so that it will be performed in an effective manner, including setting the scope, timing and direction of the assurance engagement. In doing so, the engagement leader shall consider information obtained in the acceptance and continuance process. (Ref: Para. A1-A7) [Last sentence moved from Part 3, para. 11]  
[ISAE 3000 (Revised) Para. 40 (in part) and ISA 220 (Revised) Para. 23].
4. The practitioner shall determine the nature, timing and extent of planned procedures that are required to be carried out in order to achieve the objectives of this ISSA. (Ref: Para. A8-A10A) [ISAE 3000 (Revised) Para.40 (in part)].
- 4A. If it is discovered after the engagement has been accepted that one or more preconditions for an assurance engagement is not present, the practitioner shall discuss the matter with the appropriate party(ies), and determine whether the matter can be resolved to the practitioner's satisfaction. If the matter cannot be resolved to the practitioner's satisfaction, the practitioner shall:
  - (a) Withdraw from the engagement, if withdrawal is possible under applicable law or regulation; or
  - (b) If withdrawal is not possible under applicable law or regulation, continue with the engagement and express a qualified or adverse conclusion, or disclaimer of conclusion, as appropriate in the circumstances. (Ref: Para. A10B) [Moved from Part 3 paragraph 13]  
[ISAE 3000 (Revised) Para. 42 and 43]
- 5L. [Deleted]
- 5R. [Deleted]
6. [Deleted]

#### *Materiality*

7. The practitioner shall consider materiality when:
  - (a) Planning and performing the assurance engagement, including when determining the nature, timing and extent of procedures; and
  - (b) Evaluating whether the sustainability information is free from material misstatement. (Ref: Para. A15-A29A)  
[ISAE 3000 Para. 44]
- 7A. For quantitative disclosures, the practitioner shall consider whether performance materiality is needed for purposes of planning and performing the assurance engagement. (Ref: Para. A29B-A30A) [ISAE 3410 Para. 21]
8. [Deleted]

## Part 6: Risks of Material Misstatement

*Obtaining an Understanding to Identify Disclosures where Material Misstatements are Likely to Arise (Limited Assurance) or Identify and Assess Risks of Material Misstatement (Reasonable Assurance)*

Risk Procedures to Obtain an Understanding

Limited Assurance	Reasonable Assurance
<p>1L. The practitioner shall design and perform risk procedures sufficient to identify disclosures where material misstatements are likely to arise and thereby provide a basis for designing procedures to focus on those disclosures. (Ref: Para. A1L, A1AL, A1B-A1E, A4, A5, A10)</p> <p>[ISRE 2400 (Revised)<sup>11</sup> Para. 45 and ISAE 3000 (Revised) Para. 46L]</p>	<p>1R. The practitioner shall design and perform risk procedures sufficient to: (Ref: Para. A1R, A1B-A1E, A4, A5, A10)</p> <p>(a) Identify and assess risks of material misstatement, whether due to fraud or error, at the assertion level for each disclosure; and</p> <p>(b) Design of further procedures.</p> <p>[ISA 315 (Revised 2019)<sup>12</sup> Para.13 and ISAE 3000 (Revised) Para. 46R]</p>

- 1A. When designing and performing risk procedures in accordance with paragraphs 1L and 1R, the practitioner shall consider information from the practitioner's procedures regarding acceptance and continuance of the client relationship or the sustainability assurance engagement. [ISA 315 (Revised 2019) Para. 15(a)] (Ref: Para. A9)

*Inquiries and Discussion with Appropriate Parties, the Engagement Team and the Practitioner's External Experts*

2. The practitioner shall make inquiries of appropriate parties and, when appropriate, others within the entity regarding: (Ref: Para. A11-A12, A13A)
- (a) Whether they have knowledge of any actual, suspected, or alleged fraud or non-compliance with laws and regulations affecting the sustainability information;
  - (b) Whether the entity has an internal audit function and, if so, make further inquiries to obtain an understanding of the activities and main findings of the internal audit function with respect to the sustainability information; and
  - (c) Whether the entity has used any experts in the preparation of the sustainability information.
- [ISAE 3000 (Revised) Para. 45]
3. The engagement leader and other key members of the engagement team, and any key practitioner's external experts, shall discuss the susceptibility of the disclosures to material misstatement whether due to fraud or error, and the application of the applicable criteria to the entity's facts and circumstances. The engagement leader shall determine which matters are to be communicated to

<sup>11</sup> International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

<sup>12</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

members of the engagement team, and to any practitioner's external experts not involved in the discussion. (Ref: Para. A13, A13A) [ISAE 3410 Para. 29]

*Understanding the Underlying Subject Matter and the Sustainability Information*

4. The practitioner shall obtain an understanding of the underlying subject matter and the sustainability information, including:
  - (a) The disclosures;
  - (b) The characteristics of the disclosures; and (Ref: Para. A14A-A15R)
  - (c) The extent to which the aspects of the topics or the disclosures are affected by complexity, subjectivity, change, uncertainty, or susceptibility to misstatement due to management bias or fraud.
5. [Moved to paragraph 7A]

*Understanding the Applicable Criteria*

6. The practitioner shall obtain an understanding of the applicable criteria, including the entity's process for: (Ref: Para. A20-A22)
  - (a) Identifying the applicable criteria:
  - (b) Evaluating the suitability of the applicable criteria, and
  - (c) Determining how the applicable criteria will be applied to the underlying subject matter.
7. The practitioner shall evaluate whether the applicable criteria, including the criteria for: (Ref: Para. A20-A23)
  - (a) Identifying the topics and aspects of the topics;
  - (b) The reporting boundary; and
  - (c) Interpreting framework criteria (i.e., the entity's policies for measuring or evaluating the underlying subject matter in accordance with the framework criteria, including quantification methods and reporting policies). (Ref: Para. A23)

are appropriate for the circumstances of the entity and are consistent with the applicable framework criteria and the criteria used in the relevant industry and in prior periods.

[ISA 315 (Revised 2019) Para. 20]

*Understanding the Entity and Its Environment and Components of its Internal Control*

*Understanding the Entity and Its Environment*

- 7A. The practitioner shall obtain an understanding of entity and its environment, including: (Ref: Para. A23A)
  - (a) The nature of the entity's operations, the entity's legal and organizational structure, ownership and governance, and business model; (Ref: Para. A23B)
  - (b) The reporting boundary and activities within the reporting boundary; (Ref: Para. A23C and

A23D)

- (c) Relevant industry, regulatory, and other external factors related to the entity and activities within the reporting boundary; and (Ref: Para. A23B)
- (d) Goals, targets, or strategic objectives related to the sustainability information and measures used to assess the entity's performance against these matters. (Ref: Para. A23B) [Moved from paragraph 5]

#### Understanding the Entity's Internal Control

Limited Assurance	Reasonable Assurance
<p>8L. The practitioner shall obtain an understanding of the following components of the entity's internal control relevant to the underlying subject matter and the preparation of the sustainability information through inquiries about: (Ref: Para. A24-A25, A26L, A27-A29)</p> <ul style="list-style-type: none"> <li>(a) The control environment;</li> <li>(b) The information system, which includes communication; and</li> <li>(c) The results of the entity's risk assessment process.</li> </ul> <p>[ISAE 3410 Para. 25L]</p>	<p>8R. The practitioner shall obtain an understanding of the following components of internal control relevant to the underlying subject matter and the preparation of the sustainability information: (Ref: Para. A24-A25, A27-A29)</p> <ul style="list-style-type: none"> <li>(a) The control environment;</li> <li>(b) The information system, which includes communication;</li> <li>(c) The entity's risk assessment process;</li> <li>(d) Control activities that the practitioner judges are necessary to understand in order to assess the risks of material misstatement at the assertion level and design further procedures responsive to assessed risks. An assurance engagement does not require an understanding of all the control activities related to each disclosure or to every assertion relevant to them; and</li> <li>(e) The entity's process to monitor the system of internal control.</li> </ul> <p>[ISAE 3000 (Revised) Para. 47R conceptually and ISAE 3410 Para. 25R Modified]</p>
The Control Environment	
<p>9L. The practitioner shall obtain an understanding of the control environment relevant to the underlying subject matter and the preparation of the sustainability information. (Ref: Para. A30L, A31-A32)</p>	<p>9R. The practitioner shall obtain an understanding of the control environment relevant to the underlying subject matter and the preparation of the sustainability information and based on that understanding, evaluate whether: (Ref:</p>

Limited Assurance	Reasonable Assurance
<p>[ISA 315 (Revised 2019) Para. 21]</p>	<p>Para. A30R, A31-A32)</p> <ul style="list-style-type: none"> <li>(a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior;</li> <li>(b) The control environment provides an appropriate foundation for the other components of the system of internal control considering the nature and complexity of the entity; and</li> <li>(c) Control deficiencies identified in the control environment undermine the other components of the system of internal control.</li> </ul> <p>[ISA 315 (Revised 2019) Para. 21]</p>
The Information System	
<p>10L. The practitioner shall obtain an understanding of the information system relevant to the underlying subject matter and the preparation of the sustainability information. (Ref: Para. A33-A37)</p> <p>[ISA 315 (Revised 2019) Para. 25]</p>	<p>10R. The practitioner shall obtain an understanding of the information system relevant to the underlying subject matter and the preparation of the sustainability information, and based on that understanding, evaluate whether the entity's information system appropriately supports the preparation of the sustainability information in accordance with the applicable criteria. (Ref: Para. A33-A37)</p> <p>[ISA 315 (Revised 2019) Para. 25]</p>
The Entity's Risk Assessment Process	
<p>11L. The practitioner shall obtain an understanding of the results of the entity's risk assessment process relevant to the underlying subject matter and the preparation of the sustainability information. (Ref: Para. A38)</p> <p>[ISA 315 (Revised 2019) Para. 22]</p>	<p>11R. The practitioner shall obtain an understanding of the entity's risk assessment process relevant to the underlying subject matter and the preparation of the sustainability information by: (Ref: Para. A38, A39R-A42R)</p> <ul style="list-style-type: none"> <li>(a) Understanding the entity's process for: <ul style="list-style-type: none"> <li>(i) Identifying risks relevant to sustainability information reporting objectives;</li> </ul> </li> </ul>

Limited Assurance	Reasonable Assurance
	<ul style="list-style-type: none"> <li>(ii) Assessing the significance of those risks, including the likelihood of their occurrence; and</li> <li>(iii) Addressing those risks; and</li> <li>(b) Based on the understanding in (a), evaluating whether the entity's risk assessment process is appropriate to the entity's circumstances considering the nature and complexity of: <ul style="list-style-type: none"> <li>(i) The entity</li> <li>(ii) The criteria</li> <li>(iii) The sustainability information</li> </ul> </li> </ul> <p><b>[ISA 315 (Revised 2019) Para. 22]</b></p>
Control Activities	
<p>12L. If the practitioner plans to test operating effectiveness of controls or considers that it is appropriate to understand controls to identify disclosures where the risks of material misstatement are likely to arise and design further procedures, the practitioner shall obtain an understanding of the control activities by identifying: (Ref: Para. A42AL, A45-A46)</p> <ul style="list-style-type: none"> <li>(a) Controls for which the practitioner plans to test operating effectiveness in determining the nature, timing and extent of further procedures, which shall include controls that address risks for which substantive procedures alone do not provide sufficient appropriate evidence;</li> <li>(b) The entity's general IT controls that address risks arising from the use of IT related to the controls identified in (a); and</li> <li>(c) Other controls that the practitioner</li> </ul>	<p>12R. The practitioner shall obtain an understanding of the control activities by identifying: (Ref: Para. A42AR, A45- A46)</p> <ul style="list-style-type: none"> <li>(a) Controls for which the practitioner plans to test operating effectiveness in determining the nature, timing and extent of further procedures, which shall include controls that address risks for which substantive procedures alone do not provide sufficient appropriate evidence;</li> <li>(b) The entity's general IT controls that address risks arising from the use of IT related to the controls identified in (a); and</li> <li>(c) Other controls that the practitioner considers are appropriate to identify and assess the risks of material misstatement at the assertion level for disclosures and design further procedures responsive to assessed risks.</li> </ul>

Limited Assurance	Reasonable Assurance
considers are appropriate to identify disclosures in which the risks of material misstatement are likely to arise and design further procedures focused on those disclosures.	[ISA 315 (Revised 2019) Para. 26]
<u>Design and Implementation of Controls</u>	
<p>12AL. For each control identified in accordance with paragraph 12L, the practitioner shall: (Ref: Para. A47-A48, A49L, A50-A51A)</p> <p>(a) Evaluate whether the control is designed effectively to accomplish the control objective, or effectively designed to support the operation of other controls; and</p> <p>(b) Determine whether the control has been implemented by performing procedures in addition to inquiry of the entity's personnel.</p> <p>[ISA 315 (Revised 2019) Para. 26]</p>	<p>12AR. For each control identified in accordance with paragraph 12R, the practitioner shall: (Ref: Para. A47-A48, A49R, A50-A51A)</p> <p>(a) Evaluate 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</p> <p>(b) Determine whether the control has been implemented by performing procedures in addition to inquiry of the entity's personnel.</p> <p>[ISA 315 (Revised 2019) Para. 26]</p>
<u>The Entity's Process for Monitoring the System of Internal Control</u>	
	<p>13R. The practitioner shall obtain an understanding of the entity's process for monitoring the system of internal control relevant to the preparation of the sustainability information and based on that understanding, evaluate whether the entity's process is appropriate to the entity's circumstances considering the nature and complexity of the entity and the sustainability information. (Ref: A52R-A57R)</p> <p>[ISA 315 (Revised 2019) Para. 24]</p>

*Identifying Control Deficiencies*

Limited Assurance	Reasonable Assurance
14L. Based on the practitioner's understanding of the components of internal control	14R. Based on the practitioner's evaluation of each of the components of the entity's system of

required by paragraph 8L, the practitioner shall consider whether one or more control deficiencies have been identified. (Ref: Para. A58A-A58B, A59-A59B)	internal control, the practitioner shall determine whether one or more control deficiencies have been identified. (Ref: Para. A58A-A58B, A58R, A59-A59B) [ISA 315 (Revised 2019) Para. 27]
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*Identifying Disclosures where Material Misstatements are Likely to Arise (Limited Assurance) or Identifying and Assessing the Risks of Material Misstatement (Reasonable Assurance)*

Limited Assurance	Reasonable Assurance
15L. The practitioner shall identify disclosures where material misstatements are likely to arise. (Ref: Para. A60L, A61, A62L) [ISAE 3000 (Revised) Para. 48L and ISAE 3410 Para. 33L]	15R. The practitioner shall identify and assess risks of material misstatement at the assertion level for each disclosure. (Ref: Para. A59CR, A60R, A61,) [ISAE 3410 Para. 33R]
	16R. [Deleted]

*Evaluating the Evidence Obtained from the Risk Procedures*

Limited Assurance	Reasonable Assurance
	17R. The practitioner shall determine whether the evidence obtained from the risk procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement. If not, the practitioner shall perform additional risk procedures until evidence has been obtained to provide such a basis. (Ref: Para. A62R-A63R) [ISA 315 (Revised 2019) Para. 35]
	18R. For disclosures in which no risk of material misstatement has been identified, the practitioner shall evaluate whether the practitioner's determination remains appropriate. (Ref: Para. A62R-A63R) [ISA 315 (Revised 2019) Para. 36]
19L. If the practitioner obtains new information that is inconsistent with the information upon which the practitioner originally	19R. If the practitioner obtains new information which is inconsistent with the evidence on which the practitioner originally based the

Limited Assurance	Reasonable Assurance
based the identification of the disclosures where material misstatements are likely to arise, the practitioner shall revise the identification of disclosures where material misstatements are likely to arise.	identification and assessments of the risks of material misstatement, the practitioner shall revise the identification or assessment of the risks of material misstatement. [ISA 315 (Revised 2019) Para. 37]

#### Documentation

Limited Assurance	Reasonable Assurance
<p>20L. The practitioner shall include in the documentation:</p> <ul style="list-style-type: none"> <li>(a) The discussion among the engagement team and the significant decisions reached;</li> <li>(b) Key elements of the practitioner's understanding in accordance with paragraphs 2-12; and</li> <li>(c) Disclosures identified by the practitioner where material misstatements are likely to arise.</li> </ul> <p>[Moved from Part 4, Paragraph 15L] [ISA 315 (Revised) Para. 38]</p>	<p>20R. The practitioner shall include in the documentation:</p> <ul style="list-style-type: none"> <li>(a) The discussion among the engagement team and the significant decisions reached;</li> <li>(b) Key elements of the practitioner's understanding in accordance with paragraphs 2-12;</li> <li>(c) The evaluation of the design of identified controls, and determination whether such controls have been implemented, in accordance with the requirements in paragraph 12R; and</li> <li>(b) The identified and assessed risks of material misstatement of the disclosures.</li> </ul> <p>[Moved from Part 4, Paragraph 15R] [ISA 315 (Revised) Para. 38]</p>

#### Part 7: Responding to Risks of Material Misstatement

Limited Assurance	Reasonable Assurance
<p>1L. The practitioner shall design and perform further procedures whose nature, timing and extent are focused on the disclosures where material misstatements of the sustainability information are likely to arise that the practitioner has identified. (Ref: Para. A1, A3, A5-A7)</p> <p>[ISAE 3410 Para. 37L]</p>	<p>1R. The practitioner shall design and perform further procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement at the assertion level. In doing so the practitioner shall consider the reasons for the assessment given to the risks of material misstatement at the assertion level for each disclosure, including:</p>

	<p>(a) The likelihood of material misstatement due to the particular characteristics of the sustainability information; and</p> <p>(b) Whether the risk assessment was based on an intention to test the operating effectiveness of relevant controls (that is, the practitioner intends on obtaining evidence to determine the controls are operating effectively, which affects the nature, timing and extent of other procedures). (Ref: Para. A2, A4-A7)</p> <p>[ISAE 3410 Para. 37R(a)]</p>
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2. The practitioner shall respond appropriately to fraud or suspected fraud and non-compliance or suspected non-compliance with law or regulation identified during the engagement. (Ref: Para. A8-A9) [ISAE 3410 Para.47]

#### *Tests of Controls*

3. If the practitioner intends to rely on the operating effectiveness of the controls in determining the nature, timing and extent of further procedures, or if procedures other than tests of controls cannot alone provide sufficient appropriate evidence, the practitioner shall design and perform tests of controls to obtain sufficient appropriate evidence as to the operating effectiveness of controls. (Ref: Para. A10-A12) [ISAE 3410 Para. 38R]
4. In designing and performing tests of controls, the practitioner shall (Ref: Para. A10-A12):
- (a) Perform procedures in combination with inquiry to obtain evidence about the operating effectiveness of the controls, including:
    - (i) How the controls were applied at relevant times during the period the sustainability information relates to;
    - (ii) The consistency with which they were applied; and
    - (iii) By whom or by what means they were applied.
  - (b) Determine whether the controls to be tested depend upon other controls and, if so, whether it is necessary to obtain evidence supporting the effective operation of those indirect controls.
- [ISA 330<sup>13</sup> Para 10]
5. The practitioner shall test controls for the appropriate period for which the practitioner intends to obtain evidence about the operating effectiveness of those controls, subject to paragraph 6 below. (Ref: Para. A10-A12) [ISA 330 Para 11]

<sup>13</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

6. If the practitioner obtains evidence about the operating effectiveness of controls during an interim period, the practitioner shall, in relation to the remaining period for which the practitioner intends to rely on those controls: (Ref: Para. A10-A12)
- (a) Obtain evidence about significant changes to those controls; and
  - (b) Determine the additional evidence to be obtained.
- [ISA 330 Para 12]
7. When evaluating the operating effectiveness of controls, the practitioner shall evaluate whether misstatements that have been detected by performing other procedures indicate that controls are not operating effectively. The absence of misstatements detected by other procedures, however, does not provide evidence that controls being tested are effective. (Ref: Para. A10-A12) [ISA 330 Para 16]
8. If deviations from controls upon which the practitioner intends to rely are detected, the practitioner shall make specific inquiries to understand these matters and their potential consequences, and shall determine whether: (Ref: Para. A10-A12)
- (a) The tests of controls that have been performed provide an appropriate basis to affect the nature, timing and extent of other procedures;
  - (b) Additional tests of controls are necessary; or
  - (c) The potential risks of material misstatement need to be addressed using other procedures.
- [ISAE 3410 Para.39R]

*Substantive Procedures*

Limited Assurance	Reasonable Assurance
	<p>9R. The practitioner shall perform further procedures for each risk for which the assessment of that risk is close to the upper end of the spectrum of risk due to the likelihood of misstatement, and extent to which the potential misstatement could result in a material misstatement. (Ref: Para. A13, A14, A16)</p> <p>[ISAE 3410 Para. A97]</p>
	<p>10R. The practitioner shall consider whether external confirmation procedures are to be performed. (Ref: Para. A15)</p> <p>[ISAE 3410.42R]</p>

11. If substantive procedures are performed at an interim date, the practitioner shall, in relation to the remaining period to which the sustainability information relates, perform: (Ref: Para. A17-A18)
- (a) Substantive procedures, combined with tests of controls for the intervening period; or
  - (b) If the practitioner determines that it is sufficient, further substantive procedures only,

that provide a reasonable basis for extending the conclusions from the interim date to the period end.  
(Ref: Para. A17-A18) [ISA 330 Para. 22]

#### Overall Responses

Limited Assurance	Reasonable Assurance
	<p>12R. If the practitioner's evaluation of the control environment indicates that:</p> <ul style="list-style-type: none"> <li>(a) Management, with the oversight of those charged with governance, has not created and maintained a culture of honesty and ethical behavior;</li> <li>(b) The control environment does not provide an appropriate foundation for the other components of the system of internal control considering the nature and complexity of the entity; or</li> <li>(c) Control deficiencies identified in the control environment undermine the other components of the system of internal control</li> </ul> <p>the practitioner shall design and implement overall responses to address the assessed risk of material misstatement at the level of the sustainability information as a whole. (Ref: Para. A19-A22)</p>

#### Substantive Analytical Procedures

Limited Assurance	Reasonable Assurance
<p>13L. If designing and performing analytical procedures, the practitioner shall (Ref: Para. A23-A25):</p> <ul style="list-style-type: none"> <li>(a) Determine the suitability of particular analytical procedures;</li> <li>(b) Develop an expectation with respect to recorded quantities or ratios.</li> </ul> <p>[ISAE 3410 Para. 42L]</p>	<p>13R. If designing and performing analytical procedures, the practitioner shall (Ref: Para. A23-A25):</p> <ul style="list-style-type: none"> <li>(a) Determine the suitability of particular analytical procedures for given assertions, taking account of the assessed risks of material misstatement and evidence from other procedures, if any, for these assertions;</li> <li>(c) Develop an expectation of recorded quantities or ratios that is sufficiently precise to identify possible material</li> </ul>

Limited Assurance	Reasonable Assurance
	misstatements. [ISAE 3410 Para. 42R]
<p>14L. If analytical procedures identify fluctuations or relationships that are inconsistent with other relevant information or that differ significantly from expected quantities or ratios, the practitioner shall make inquiries of management about such differences. The practitioner shall consider the responses to these inquiries to determine whether other procedures are necessary in the circumstances. (Ref: Para. A23-A25)</p> <p>[ISAE 3410 Para. 43L]</p>	<p>14R. If analytical procedures identify fluctuations or relationships that are inconsistent with other relevant information or that differ significantly from expected quantities or ratios, the practitioner shall investigate such differences by: (Ref: Para. A23-A25)</p> <p>(a) Inquiring of management and obtaining additional evidence relevant to management's responses; and</p> <p>(b) Performing other procedures as necessary in the circumstances.</p> <p>[ISAE 3410 Para. 43R]</p>

#### Sampling

15. If the practitioner uses sampling when responding to assessed risks of material misstatement as a means for selecting items for testing, the practitioner shall:
- (a) Consider the purpose of the procedure 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 procedures, appropriate to the purpose, on each item selected, unless the procedure is not applicable to the selected item in which case the practitioner shall select a replacement item or perform a suitable alternative procedure. If the practitioner is unable to apply the designed procedures, or suitable alternative procedures, to the selected item, that item shall be treated as a deviation (in the case of tests of controls) or a misstatement (in the case of tests of details).
  - (e) Investigate deviations or misstatements identified in the sample as to their nature and cause, and evaluate their possible effect on the purpose of the procedure and other areas of the engagement.
- [Proposed ISA for LCE<sup>14</sup> Para. 7.3.5]
16. When there are deviations or misstatements, the practitioner shall:
- (a) Investigate the nature and cause of the deviations or misstatements, and evaluate their possible effect on the purpose of the procedure and on other areas of the engagement.
  - (b) In the extremely rare circumstances when the practitioner considers a misstatement or

<sup>14</sup> Proposed ISA for LCE, *Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities*

deviation to be an anomaly, perform additional procedures to obtain sufficient appropriate evidence that the misstatement or deviation does not affect the remainder of the population.

- (c) For tests of details, project misstatements found in the sample to the population

[ISA 530<sup>15</sup> Para. 12–14]

17. If the practitioner uses sampling, the practitioner shall evaluate:

- (a) The results of the sample; and  
(b) Whether the use of sampling has provided a reasonable basis for conclusions about the population that has been tested.

[ISA 530 Para. 15]

*Determining Whether Additional Procedures Are Necessary in a Limited Assurance Engagement*

Limited Assurance	Reasonable Assurance
<p>18L. If the practitioner becomes aware of a matter(s) that causes the practitioner to believe the sustainability information may be materially misstated, the practitioner shall design and perform additional procedures to obtain further evidence until the practitioner is able to: (Ref: Para. A26-A29)</p> <p>(a) Conclude that the matter(s) is not likely to cause the sustainability information to be materially misstated; or</p> <p>(b) Determine that the matter(s) causes the sustainability information to be materially misstated.</p> <p>[ISAE 3000 Para.49L]</p>	

*Specific Focus Areas*

Estimates, Including Forward-Looking Information (Ref: Para. A30-A31)

Limited Assurance	Reasonable Assurance
<p>19L. The practitioner shall: (Ref: Para. A30-A31)</p> <p>(a) Evaluate whether:</p>	<p>19R. Based on the assessed risks of material misstatement, the practitioner shall evaluate whether: (Ref: Para. A30)</p>

<sup>15</sup> ISA 530, *Audit Sampling*

Limited Assurance	Reasonable Assurance
<p>(i) Management has appropriately applied the requirements of the applicable criteria relevant to estimates; and</p> <p>(ii) The methods for making estimates are appropriate and have been applied consistently, and whether changes, if any, in reported estimates or in the method for making them from the prior period are appropriate in the circumstances; and</p> <p>(b) Consider whether other procedures are necessary in the circumstances.</p> <p>[ISAE 3410 Para. 44L]</p>	<p>(a) Management has appropriately applied the requirements of the applicable criteria relevant to estimates; and</p> <p>(b) The methods for making estimates are appropriate and have been applied consistently, and whether changes, if any, in reported estimates or in the method for making them from the prior period are appropriate in the circumstances.</p> <p>[ISAE 3410 Para 44R]</p>
	<p>20R. In responding to an assessed risk of material misstatement relating to an aspect of sustainability information involving estimates, the practitioner shall undertake one or more of the following, taking account of the nature of estimates: (Ref: Para. A30)</p> <p>(a) Test how management made the estimate and the information on which it is based. In doing so, the practitioner shall evaluate whether:</p> <p>(i) The method of quantification used is appropriate in the circumstances; and</p> <p>(ii) The assumptions used by management are reasonable.</p> <p>(b) Test the operating effectiveness of the controls over how management made the estimate, together with other appropriate procedures.</p> <p>(c) Develop a point estimate or a range to evaluate management's estimate. For this purpose:</p>

Limited Assurance	Reasonable Assurance
	<p>(i) If the practitioner uses assumptions or methods that differ from management's, the practitioner shall obtain an understanding of management's assumptions or methods sufficient to establish that the practitioner's point estimate or range takes into account relevant variables and to evaluate any significant differences from management's point estimate.</p> <p>(ii) If the practitioner concludes that it is appropriate to use a range, the practitioner shall narrow the range, based on evidence available, until all outcomes within the range are considered reasonable.</p> <p>[ISAE 3410 Para. 45R]</p>

The Process for Assembling the Sustainability Information

Limited Assurance	Reasonable Assurance
<p>21L. The practitioner's procedures shall include the following procedures related to the entity's process for assembling the sustainability information: (Ref: Para. A32)</p> <p>(a) Agreeing or reconciling the sustainability information with the underlying records; and</p> <p>(b) Obtaining, through inquiry of management, an understanding of material adjustments made during the course of preparing the sustainability information and considering whether other procedures are necessary in the circumstances.</p> <p>[ISAE 3410 Para. 48L]</p>	<p>21R. The practitioner's procedures shall include the following procedures related to the entity's process for assembling the sustainability information: (Ref: Para. A32)</p> <p>(a) Agreeing or reconciling the sustainability information with the underlying records; and</p> <p>(b) Examining material adjustments made during the course of preparing the sustainability information.</p> <p>[ISAE 3410 Para. 48R]</p>

## Part 8: Concluding

### Accumulation and Consideration of Identified Misstatements

#### *Accumulation of Identified Misstatements*

1. The practitioner shall accumulate misstatements identified during the engagement, other than those that are clearly trivial. (Ref: Para. A1-A7) [ISAE 3410 Para. 50 and ISA 450<sup>16</sup> Para. 5]
2. The practitioner shall: (Ref: Para. A8-A10)
  - (a) Remain alert throughout the engagement, including when considering misstatements individually or in aggregate, to the possibility that misstatements due to fraud may occur; and
  - (b) Respond appropriately if there are indicators that there may be material misstatements of the sustainability information due to fraud.[EER<sup>17</sup> Para. 313]

#### *Consideration of Identified Misstatements as the Engagement Progresses*

3. The practitioner shall determine whether the overall engagement strategy and engagement plan need to be revised if: (Ref: Para. A11)
  - (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 engagement, could be material; or
  - (b) The misstatements accumulated during the engagement may, in aggregate, result in the sustainability information being materially misstated.[ISAE 3410 Para. 51]
4. If, at the practitioner's request, management has examined the sustainability information and corrected misstatements that were detected, the practitioner shall perform additional procedures with respect to the work performed by management to determine whether material misstatements remain. [ISAE 3410 Para. 52]

#### *Communicating and Correcting Misstatements*

5. The practitioner shall communicate on a timely basis all misstatements accumulated during the assurance engagement to management, and shall request management to correct those misstatements. (Ref: Para. A12) [ISAE 3410 Para. 53]
6. If management refuses to correct some or all of the misstatements communicated by the practitioner, the practitioner shall obtain an understanding of management's reasons for not making the corrections and shall consider that understanding when forming the practitioner's conclusion. (Ref: Para. A13) [ISAE 3410 Para. 54]

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<sup>16</sup> ISA 450, *Evaluation of Misstatements Identified during the Audit*

<sup>17</sup> EER, *Extended External Reporting Assurance*

### *Evaluating the Effect of Uncorrected Misstatements*

7. Prior to evaluating the effect of uncorrected misstatements, the practitioner shall reconsider materiality to confirm whether it remains appropriate. [ISAE 3410 Para.55]
8. The practitioner shall determine whether uncorrected misstatements are material individually or in the aggregate. In making this determination, the practitioner shall consider the size and nature of the misstatements, and the particular circumstances of their occurrence, for the purposes of expressing a conclusion in the assurance report. (Ref: Para. A14-A24) [ISAE 3410 Para.56]

### **Evaluating the Description of Applicable Criteria**

9. The practitioner shall evaluate whether the sustainability information adequately references or describes the applicable criteria and the sources of those criteria. (Ref: Para. A25-29) [ISAE 3000 (Revised) Para.63]

### **Subsequent Events**

10. The practitioner shall: (Ref: Para. A30, A31L and A31R)
  - (a) Perform procedures to identify events occurring up to the date of the assurance report that may have an effect on the sustainability information and the assurance report, and
  - (b) Evaluate the sufficiency and appropriateness of evidence obtained about whether such events are appropriately reflected in that sustainability information in accordance with the applicable criteria.[ISAE 3000 Para. 61 and ISAE 3410 Para. 61]
11. The practitioner shall respond appropriately to facts that become known to the practitioner after the date of the assurance report, that, had they been known to the practitioner at that date, may have caused the practitioner to amend the assurance report. (Ref: Para. A32) [ISAE 3410 Para. 61]

### **Written Representations from Management and Those Charged with Governance**

12. The practitioner shall request from management and, where appropriate, those charged with governance a written representation: (Ref: Para. A34-A35)
  - (a) That they have fulfilled their responsibility for the preparation of the sustainability information, including comparative information where appropriate, in accordance with the applicable criteria, as set out in the terms of the engagement; [ISAE 3410 Para. 58]
  - (b) That they have provided the practitioner with all relevant information and access as agreed in the terms of the engagement and reflected all relevant matters in the sustainability information (see Part 3 paragraph14(c)(iv)); [ISAE 3410 Para. 58]
  - (c) Whether they believe the effects of uncorrected misstatements are immaterial, individually and in the aggregate, to the sustainability information. A summary of such items shall be included in, or attached to, the written representation; [ISAE 3410 Para. 58]
  - (d) Whether they believe that significant assumptions used in making estimates and preparing forward-looking information are reasonable; [ISAE 3410 Para. 58]

- (e) That they have communicated to the practitioner all deficiencies in internal control relevant to the engagement that are not clearly trivial of which they are aware; [ISAE 3410 Para. 58]
  - (f) Whether they have disclosed to the practitioner their knowledge of actual, suspected or alleged fraud or non-compliance with law or regulation where the fraud or non-compliance could have a material effect on the sustainability information. [ISAE 3410 Para. 58]
  - (g) That they adjusted and disclosed all events occurring subsequent to the date of the sustainability information and for which the applicable criteria require adjustment or disclosure. [ISAE 3410 Para. 58]
13. If, in addition to required representations, the practitioner determines that it is necessary to obtain one or more written representations to support other evidence relevant to the sustainability information, the practitioner shall request such other written representations. [ISAE 3000 Para. 57]
14. When written representations relate to matters that are material to the sustainability information, the practitioner shall:
- (a) Evaluate their reasonableness and consistency with other evidence obtained, including other representations (oral or written); and
  - (b) Consider whether those making the representations can be expected to be well-informed on the particular matters.
- [ISAE 3000 Para. 58]
15. The date of the written representations shall be as near as practicable to, but not after, the date of the assurance report. [ISAE 3000 Para. 59]
16. If one or more of the requested written representations are not provided or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations, or that the written representations are otherwise not reliable, the practitioner shall:
- (a) Discuss the matter with the management and, where appropriate those charged with governance;
  - (b) Reevaluate the integrity of those from whom the representations were requested or received and evaluate the effect that this may have on the reliability of representations (oral or written) and evidence in general; and
  - (c) Take appropriate actions, including determining the possible effect on the conclusion in the assurance report.
- [ISAE 3000 Para. 60]
17. The practitioner shall disclaim a conclusion on the sustainability information or withdraw from the engagement, where withdrawal is possible under applicable law or regulation, if:
- (a) The practitioner concludes that there is sufficient doubt about the integrity of the person(s) providing the written representations required by paragraphs 12(a) and (b) that written representations in these regards are not reliable; or
  - (b) The entity does not provide the written representations required by paragraphs 12(a) and (b).

[ISAE 3410 Para.60]

## Other Information

### *Obtaining the Other Information*

18. The practitioner shall: (Ref: Para. A36-A40)

- (a) Determine, through discussion with management, the document or documents expected to be issued that will contain sustainability information, and the entity's planned manner and timing of the issuance of such document(s); and
- (b) Make appropriate arrangements with management to obtain in a timely manner prior to the date of the practitioner's report, the final version of such document(s).

[ISA 720 (Revised)<sup>18</sup> Para.13]

### *Reading and Considering the Other Information*

19. The practitioner shall read the other information obtained prior to the date of the assurance report and, in doing so shall: (Ref: Para. A41)

- (a) Consider whether there is a material inconsistency between the other information and the sustainability information.
- (b) Consider whether there is a material inconsistency between the other information and the practitioner's knowledge obtained in the assurance engagement, in the context of evidence obtained and conclusions reached in the engagement.
- (c) Remain alert for indications that the other information not related to the sustainability information or the practitioner's knowledge obtained in the engagement appears to be materially misstated.

[ISA 720 (Revised) para.14-15]

### *Responding When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated*

20. If the practitioner identifies that a material inconsistency appears to exist (or becomes aware that the other information appears to be materially misstated), the practitioner 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 sustainability information exists; or
- (c) The practitioner's understanding of the entity and its environment needs to be updated.

[ISA 720 (Revised) para.16]

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<sup>18</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

*Responding When the Practitioner Concludes That a Material Misstatement of the Other Information Exists*

21. If the practitioner concludes that a material misstatement of the other information exists, the practitioner shall request management to correct the other information. If management: (Ref: Para. A42)
- (a) Agrees to make the correction, the practitioner shall determine that the correction has been made; or
  - (b) Refuses to make the correction, the practitioner shall communicate the matter with those charged with governance and request that the correction be made.

[ISA 720 (Revised) Para. 17]

22. If the practitioner concludes that a material misstatement exists in other information and the other information is not corrected after communicating with those charged with governance, the practitioner shall take appropriate action, including:
- (a) Considering the implications for the practitioner's report and communicating with those charged with governance about how the practitioner plans to address the material misstatement in the practitioner's report; or
  - (b) Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.

[ISA 720 (Revised) Para.18]

*Responding When a Material Misstatement in the Sustainability Information Exists or the Practitioner's Understanding of the Entity and Its Environment Needs to Be Updated*

23. If, as a result of performing the procedures in paragraph 20, the practitioner concludes that a material misstatement in the sustainability information exists or the practitioner's understanding of the entity and its environment needs to be updated, the practitioner shall respond appropriately. (Ref: Para. A43) [ISA 720 (Revised) Para. 14, 15 and 20]

**Forming the Assurance Conclusion**

*Evaluating the Evidence Obtained*

24. The practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained in the context of the engagement and, if necessary in the circumstances, attempt to obtain further evidence. In making this evaluation, the practitioner shall: (Ref: Para. A44-A51)
- (a) Evaluate whether the evidence obtained meets the intended purpose of the procedures;
  - (b) Consider all evidence obtained, including evidence that is consistent or inconsistent with other evidence, and regardless of whether it appears to corroborate or to contradict the disclosures; and
  - (c) When the practitioner has used the work of a practitioner's external expert, another practitioner or the internal audit function, the practitioner shall evaluate whether such work is adequate for the practitioner's purposes. [Moved from Part 4, paragraph 6]

[ISAE 3000 (Revised) Para. 64 and ED-500 Para. 13]

25. If the practitioner obtains evidence that is inconsistent with other evidence, the practitioner shall: (Ref: Para.A52-A56)
- (a) Determine what modifications or additions to procedures are necessary to understand and address the inconsistency; and
  - (b) Consider the effect, if any, on other aspects of the assurance engagement. [Moved from Part 4, paragraph 7]  
[ED-500 Para. 14]

#### *Concluding*

- 26 The practitioner shall form a conclusion about whether the sustainability information is free from material misstatement. In forming that conclusion, the practitioner shall consider the practitioner's evaluation in paragraph 24 regarding the sufficiency and appropriateness of evidence obtained and the determination in paragraph 8 of whether uncorrected misstatements are material, individually or in the aggregate. (Ref: Para. A57-A59) [ISAE 3410 Para. 73L; ISAE 3000 (Revised) Para. 65]
27. When the principles of fair presentation are embodied in the applicable criteria, the evaluation required by paragraph 26 shall also include consideration of: (Ref: Para. A60-62)
- (a) The overall presentation, structure and content of the sustainability information; and
  - (b) When appropriate in the context of the criteria, the wording of the assurance conclusion, or other engagement circumstances, whether the sustainability information represents the underlying subject matter in a manner that achieves fair presentation. [ISAE 3410 Para. 75]

#### *Scope Limitation*

28. If the practitioner is unable to obtain sufficient appropriate evidence, a scope limitation exists and the practitioner shall either: (Ref: Para. A63-A64)
- (a) Express a qualified conclusion (reported as required in Part 9 paragraph 14);
  - (b) Disclaim a conclusion, (reported as required in Part 9 paragraph 14); or
  - (c) Withdraw from the engagement, where withdrawal is possible under applicable law or regulation, as appropriate.  
[ISAE 3000 (Revised) Para. 66]

#### *Taking Overall Responsibility for Managing and Achieving Quality*

29. Prior to dating the assurance report, the engagement leader shall: (Ref: Para. A65-A67)
- (a) Take responsibility for determining whether relevant ethical requirements, including independence, have been fulfilled. [ISA 220 (Revised) Para. 21]
  - (b) Determine, through review of engagement documentation and discussion with the engagement team, that sufficient appropriate evidence has been obtained to support the conclusions reached and for the assurance report to be issued. [ISA 220 Para. 32]
  - (c) Review the sustainability information and the assurance report, to determine that the report to be issued will be appropriate in the circumstances. [ISA 220 Para. 33]

- (d) Determine that:
  - (i) The engagement leader's involvement has been sufficient and appropriate throughout the engagement such that the engagement leader 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
  - (ii) The nature and circumstances of the engagement, any changes thereto, and the firm's related policies or procedures have been taken into account in complying with the requirements of this ISSA. [ISA 220 Para. 40]
- (e) If the engagement is subject to an engagement quality review, determine that the engagement quality review has been completed. [ISA 220 Para. 36(d)]

#### *Documentation*

30. The practitioner shall include in the documentation: (Ref: Para. A68)
- (a) The basis for the engagement leader's determination in accordance with paragraph 29(b) that sufficient appropriate evidence has been obtained, including:
    - (i) The determination in accordance with paragraph 24(c) that the work of a practitioner's external expert, another practitioner or the internal audit function is adequate for the practitioner's purposes;
    - (ii) How inconsistencies in evidence were addressed (see paragraph 25); and
  - (b) The basis for the engagement leader's determination in accordance with paragraph 29(d) that the engagement leader's involvement has been sufficient and appropriate throughout the engagement. (Ref: Para. A68)
- [ISA 220 Para. 41]

### **Part 9: Reporting**

#### **Preparing the Assurance Report**

1. The assurance report shall be in writing and shall contain a clear expression of the practitioner's reasonable or limited assurance conclusion about the sustainability information. (Ref: Para. A1, A2)
- [ISAE 3000 (Revised) Para. 67]
2. The practitioner's conclusion shall be clearly separated from information or explanations that are not intended to affect the practitioner's conclusion, including any Emphasis of Matter, Other Matter findings related to particular aspects of the engagements, recommendations or additional information included in the assurance report. The wording used shall make it clear that an Emphasis of Matter, Other Matter, findings, recommendations or additional information is not intended to detract from the practitioner's conclusion. (Ref: Para. A1, A2)
- [ISAE 3000 (Revised) Para. 68, EER Para. 402]

### *Assurance Report Content*

3. The assurance report shall include at a minimum the following basic elements: (Ref: Para. A24-A27)
- (a) A title that clearly indicates the report is an independent assurance report. (Ref: Para. A3-A4)  
[ISAE 3000 Para. 69(a), ISAE 3410 Para. 76(a), ISA 700 (Revised)<sup>19</sup> Para. 21]
  - (b) An addressee. (Ref: Para. A5)  
[ISAE 3000 Para. 69(b), ISAE 3410 Para. 76(b)]
  - (c) The practitioner's conclusion in the first section of the assurance report, which: (Ref: Para. A6-A13)
    - (i) Includes a heading reflecting the type of conclusion provided, either:
      - a. For unmodified conclusions, a "Reasonable Assurance Opinion," "Limited Assurance Conclusion," or "Reasonable and Limited Assurance Conclusions," as appropriate; or
      - b. For modified conclusions, the heading in a. above shall be prefixed with "Qualified," "Adverse," or "Disclaimer of" as appropriate;
    - (ii) Identifies the entity whose sustainability information has been assured;
    - (iii) Identifies or describes the level of assurance, either reasonable or limited or different levels of assurance for different parts of the sustainability information, obtained by the practitioner; (Ref: Para. A6)
    - (iv) Identifies the sustainability information subject to the assurance engagement, including the location of that information; (Ref: Para. A7) [ISAE 3410 Para. 76(d), (g)]
    - (v) Identifies the applicable criteria, whether framework criteria, entity-developed criteria or both, including where it is located; (Ref: Para. A8-A9) and
    - (vi) Specifies the date of, or period or periods covered by, the document or documents comprising the sustainability information. [ISAE 3410 Para 76(c), (d), (g),(h); ISA 700 (Revised) Para. 23 & 24]
    - (vii) Expresses a conclusion, which: (Ref: Para. A10-A12)
      - a. In a reasonable assurance engagement, shall be expressed in a positive form; or
      - b. In a limited assurance engagement, shall be expressed in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe that the sustainability information is not prepared, in all material respects, in accordance with the applicable criteria.
    - (viii) The conclusion in paragraph 3(c)(vii) shall be phrased using appropriate words for the underlying subject matter and applicable criteria given the engagement circumstances and shall be phrased in terms of: (Ref: Para. A10-A12)

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<sup>19</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

- a. The sustainability information and the applicable criteria; or
  - b. A statement made by the appropriate party(ies).
- (ix) When appropriate, the conclusion shall inform the intended users of the context in which the practitioner's conclusion is to be read. (Ref: Para. A13)
- (d) Basis for Conclusion section directly following the Conclusion section, with the heading "Basis for Conclusion," that:
- (i) States that the engagement was conducted in accordance with ISSA 5000 *General Requirements for Sustainability Assurance Engagements*; (Ref: Para. A14)
  - (ii) Refers to the section of the practitioner's report that describes the practitioner's responsibilities (see paragraph 3(g)); (Ref: Para A17)
  - (iii) [PLACEHOLDER for amended requirements when IESBA requirements are revised]  
Includes a statement that the practitioner complies with the independence and other ethical requirements of the IESBA Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as the provisions of the IESBA Code related to assurance engagements. If other professional requirements are applied, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as the provisions of the IESBA Code related to assurance engagements; (Ref: Para. A15)  
[ISAE 3410 Para 76(j), ISAE 3000 Para. 69(j)]
  - (iv) States whether the practitioner believes that the evidence the practitioner has obtained is sufficient and appropriate to provide a basis for the practitioner's conclusion; and [ISAE 3410 Para. 76(k), ISAE 3000 Para. 69(h), ISA 700 (Revised) Para. 28]
  - (v) If the practitioner expresses a modified conclusion, provides a description of the matter(s) giving rise to the modification.  
[ISAE 3000 (Revised) Para. 76(l)(v)]
- (e) Where applicable, a paragraph with a heading "Other Information," containing the matters in accordance with paragraph 13.  
[ISA 700 (Revised) Para. 32]
- (f) A section with the heading "Management's Responsibilities for the Sustainability Information" that states that management is responsible for a description of the entity's responsibilities for: (Ref: Para. A16-A18)
- (i) The preparation, of the sustainability information in accordance with the applicable criteria;
  - (ii) Referring to, or describing in the sustainability information, the applicable criteria used, who developed them and, for the suitability of any entity-developed criteria; (Ref: Para. A8-A9)

- (iii) Designing, implementing and maintaining such internal control that the entity determines is necessary to enable the preparation of sustainability information in accordance with the applicable criteria that is free from material misstatement, whether due to fraud or error;
- (iv) Where appropriate, a description of any significant inherent limitations associated with the measurement or evaluation of the sustainability information against the applicable criteria; (Ref: Part 8 Para. A21) [ISAE 3000 (Revised) Para. 69(e), A166 & ISAE 3410 Para. 76(f)]  
[ISAE 3410 Para 76(e), ISA 700 (Revised) Para. 33-34]
- (g) A section with the heading "Practitioner's Responsibilities," that shall state that : (Ref: Para A17)
  - (i) The objective of the practitioner is to perform procedures to obtain sufficient appropriate evidence to support a conclusion about whether the sustainability information is free from material misstatement, whether due to fraud or error.
  - (ii) Misstatements can arise from fraud or error, and either:
    - a. Describe that they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of this sustainability information; or
    - b. Provide a definition or description of materiality in accordance with the applicable criteria. (Ref. Para.A17A)
  - (iii) The practitioner exercises professional judgment and maintains professional skepticism throughout the engagement.
  - (iv) The practitioner either:
    - a. For a limited assurance engagement: performs risk procedures, including an understanding of internal control relevant to the engagement, to identify disclosures where risks of material misstatement of the sustainability information are likely to arise; or
    - b. For a reasonable assurance engagement: performs risk procedures, including an understanding of internal control relevant to the engagement, to identify and assess the risks of material misstatement of the sustainability information, whether due to fraud or error;
  - (v) The practitioner designs and performs procedures responsive to those risks. 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.
  - (vi) Evaluating the suitability of the criteria used and the reasonableness of estimates made and assumptions used by management in the preparation of the sustainability information.

[ISA 700 (Revised) Para. 37-39, ISAE 3000 Para. 69(g)]

- (h) A statement, with a heading “Quality Management,” that the firm of which the practitioner is a member applies ISQM 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQM 1. If other professional requirements are applied, the statement shall identify those professional requirements, or requirements in law or regulation, applied that are at least as demanding as ISQM 1.

[ISAE 3410 Para. 76(l)]

- (i) A section, with the heading “Summary of Work Performed,” that contains an informative summary of the work performed as a basis for the practitioner’s conclusion. In a limited assurance engagement, this section shall describe the nature, timing and extent of procedures performed sufficiently to enable users to understand the limited assurance the practitioner has obtained and shall state that: (Ref: Para. A19-A22L)
  - (i) The procedures in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and
  - (ii) Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

[ISAE 3000 Para. 69(k), ISAE 3410 Para. 76(k)]

- (j) The practitioner’s signature.

[ISAE 3000 Para. 69(m), ISAE 3410 Para. 76(m)]

- (k) The location in the jurisdiction where the engagement leader practices.

[ISAE 3000 Para. 69(o), ISAE 3410 Para. 76(o)]

- (l) The date of the assurance report. The assurance report shall be dated no earlier than the date on which: (Ref: Para A23)
  - (i) The practitioner has obtained the evidence on which the practitioner’s conclusion is based, including evidence that those with the recognized authority have asserted that they have taken responsibility for the sustainability information; and
  - (ii) When an engagement quality review is required in accordance with ISQM 1 or the firm’s policies or procedures, the engagement quality review is complete.

[ISAE 3000 Para. 69(n), ISAE 3410 Para. 76(n)]

#### Name of the Engagement Leader in the Assurance Report

- 4. The name of the engagement leader shall be included in the assurance report on sustainability information of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. In the rare circumstances that the practitioner intends not to include the name of the engagement leader in the assurance report, the practitioner shall discuss this intention with those charged with governance to inform the practitioner’s assessment of the likelihood and severity of a significant personal security threat. (Ref: Para A28-A30)

[ISA 700 (Revised) Para. 46]

#### Reference to a Practitioner's Expert in the Assurance Report

5. If the practitioner refers to the work of a practitioner's expert in the assurance report, the wording of that report shall not imply that the practitioner's responsibility for the conclusion expressed in that report is reduced because of the involvement of that expert. (Ref: Para A31-A32)

[ISAE 3000 (Revised) Para. 70]

#### Other Reporting Responsibilities

6. If the practitioner addresses other reporting responsibilities in the assurance report on the sustainability information that are in addition to the practitioner's responsibilities under this ISSA, the practitioner shall: (Ref: Para A33-A35)

- (a) If the topics, aspects of topics or disclosures are different to that of the sustainability information subject to the assurance engagement under this ISSA, include a separate section in the assurance report with a heading "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate to the content of the section.
- (b) If the topics, aspects of topics or disclosures are the same as that of the sustainability information subject to the assurance engagement under this ISSA, the other reporting responsibilities may be presented in the same section as the related report elements required by this ISSA, but shall be clearly differentiated.

[ISA 700 (Revised) Para. 43-44]

7. If the assurance report contains a separate section that addresses other reporting responsibilities, the requirements of paragraph 3 shall be included under a section with a heading "Assurance Report on the Sustainability Information." The "Report on Other Legal and Regulatory Requirements" shall follow the "Assurance Report on the Sustainability Information." (Ref: Para. A35)

[ISA 700 (Revised) Para.45]

8. If the practitioner is required by law or regulation to use a specific layout or wording of the assurance report, the assurance report shall refer to this ISSA only if the assurance report includes, at a minimum, each of the elements identified in paragraphs 3 and 4. (Ref: Par. A34)

[ISAE 3000 (Revised) Para. 71]

#### Engagements Conducted in Accordance with Both ISSA 5000 and Other Assurance Standards

9. A practitioner may be required to conduct an assurance engagement in accordance with the assurance standards of a specific jurisdiction or industry (the "other assurance standards"), and has additionally complied with this ISSA in the conduct of the engagement. If this is the case, the assurance report may refer to this ISSA in addition to the other assurance standards, but the practitioner shall do so only if:

- (a) There is no conflict between the requirements in the other assurance standards and those in ISSA that would lead the practitioner
  - (i) to reach a different conclusion, or
  - (ii) not to include an Emphasis of Matter paragraph or Other Matter paragraph that, in the particular circumstances, is required by ISSA; and

- (b) The practitioner's report includes, at a minimum, each of the elements set out in paragraphs 3 and 4 when the practitioner uses the layout or wording specified by the other assurance standards. However, reference to "law or regulation" in paragraph 3(d)(iii) and 3(h) shall be read as reference to the other assurance standards. The assurance report shall thereby identify such other assurance standards, including the jurisdiction of origin of the other assurance standards.

[ISA 700 (Revised) Para. 51-52]

*Unmodified Conclusions*

Limited Assurance	Reasonable Assurance
<p>10L. The practitioner shall express an unmodified limited assurance conclusion when the practitioner concludes, that, based on the procedures performed and evidence obtained, no matter(s) has come to the attention of the practitioner that causes the practitioner to believe that:</p> <p>(a) In the case of a compliance framework, the sustainability information is not prepared, in all material respects, in accordance with the applicable criteria; or</p> <p>(b) In the case of a fair presentation framework, the sustainability information is not fairly presented, in all material respects, in accordance with the applicable criteria.</p> <p>[ISAE 3000 (Revised) Para.72, ISA 700 (Revised) Para.16]</p>	<p>10R. The practitioner shall express an unmodified reasonable assurance conclusion when the practitioner concludes, that:</p> <p>(a) In the case of a compliance framework or compliance criteria, the sustainability information is prepared, in all material respects, in accordance with the applicable framework or criteria; or</p> <p>(b) In the case of a fair presentation framework, the sustainability information is fairly presented, in all material respects, in accordance with the applicable framework or criteria.</p> <p>[ISAE 3000 (Revised) Para.72, ISA 700 (Revised) Para.16]</p>

*Emphasis of Matter Paragraphs and Other Matter Paragraphs*

11. If the practitioner considers it necessary to: (Ref: Para. A36-A40)
- (a) Draw intended users' attention to a matter presented or disclosed in the sustainability information that, in the practitioner's judgment, is of such importance that it is fundamental to intended users' understanding of the that information (an Emphasis of Matter paragraph); or
- (b) Communicate a matter other than those that are presented or disclosed in the sustainability information that, in the practitioner's judgment, is relevant to intended users' understanding of the engagement, the practitioner's responsibilities or the assurance report (an Other Matter paragraph),

and this is not prohibited by law or regulation, the practitioner shall do so in a paragraph in the assurance report, with an appropriate heading, that clearly indicates the practitioner's conclusion is not modified in respect of the matter.

[ISAE 3000 (Revised) Para. 73]

#### *Other Information*

12. If the practitioner has obtained the other information at the date of the assurance report, the assurance report shall include a separate section with a heading “Other Information”, or other appropriate heading.

[ISA 720 (Revised) Para. 21]

13. When the assurance report is required to include an Other Information section in accordance with paragraph 12, this section shall include:

- (a) A statement that management is responsible for the other information;
- (b) An identification of other information obtained by the practitioner prior to the date of the assurance report;
- (c) A statement that the practitioner's conclusion does not cover the other information and, accordingly, that the practitioner does not provide a conclusion thereon;
- (d) A description of the practitioner's responsibilities relating to reading, considering and reporting on other information as required by this ISSA; and
- (e) Either:
  - (i) A statement that the practitioner has nothing to report with respect to the other information; or
  - (ii) If the practitioner 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.

[ISA 720 Revised) para. 22]

#### *Modified Conclusions*

14. The engagement leader shall express a modified conclusion in the following circumstances:
- (a) When, in the practitioner's professional judgment, a scope limitation exists and the effect of the matter could be material (see Part 8 paragraph 28). In such cases, the practitioner shall express a qualified conclusion or a disclaimer of conclusion. (Ref: Para. A41-A42, A48-A50)
  - (b) When, in the practitioner's professional judgment, the sustainability information is materially misstated. In such cases, the practitioner shall express a qualified conclusion or adverse conclusion. (Ref: Para. A43-A45, A48-A50)

[ISAE 3000 Para. 74]

15. The engagement leader shall express a qualified conclusion when, in the practitioner's professional judgment, the effects, or possible effects, of a matter are not so material and pervasive as to require an adverse conclusion or a disclaimer of conclusion. A qualified conclusion shall be expressed as being "except for" the effects, or possible effects, of the matter to which the qualification relates. (Ref: Para. A46-A47) [ISAE 3000 Para. 75]
16. If the engagement leader expresses a modified conclusion because of a scope limitation but is also aware of a matter(s) that causes the sustainability information to be materially misstated, the engagement leader shall include in the assurance report a clear description of both the scope limitation and the matter(s) that causes that the sustainability information to be materially misstated. [ISAE 3000 Para. 76]
17. When a statement made by management or those charged with governance, as appropriate, in the sustainability information has identified and properly described that the sustainability information is materially misstated, the practitioner shall either:
  - (a) Express a qualified conclusion or adverse conclusion phrased in terms of the underlying sustainability information and the applicable criteria; or
  - (b) If specifically required by the terms of the engagement to phrase the conclusion in terms of a statement made by the those charged with governance, express an unqualified conclusion but include an Emphasis of Matter paragraph in the assurance report referring to the statement made by those charged with governance that identifies and properly describes that the sustainability information is materially misstated.[ISAE 3000 Para. 77]

#### *Comparative Information*

18. When comparative information is presented with the current sustainability information and some or all of that comparative information is covered by the engagement leader's conclusion, the practitioner's procedures with respect to the comparative information shall include evaluating whether: (Ref: Para. A51-A56)
  - (a) The comparative information is consistent with the disclosures presented in the prior period or, when appropriate, has been properly restated and that restatement has been adequately disclosed; and
  - (b) The criteria for evaluation, measurement, presentation or disclosure of the sustainability information reflected in the comparative information are consistent with those applied in the current period or, if there have been changes, whether they have been properly applied and adequately disclosed.[ISAE 3410 Para. 62]
19. Irrespective of whether the practitioner's conclusion covers the comparative information, if the practitioner becomes aware that there may be a material misstatement in the comparative information presented the practitioner shall: (Ref: Para. A56)
  - (a) Discuss the matter with those person(s) within the entity with appropriate responsibilities for, and knowledge of, the matters concerned and perform procedures appropriate in the circumstances; and

- (b) Consider the effect on the assurance report. If the comparative information presented contains a material misstatement, and the comparative information has not been restated:
  - (i) When the practitioner's conclusion covers the comparative information, the practitioner shall express a qualified conclusion or an adverse conclusion in the assurance report;  
or
  - (ii) When the practitioner's conclusion does not cover the comparative information, the practitioner shall include an Other Matter paragraph in the assurance report describing the circumstances affecting the comparative information.

[ISAE 3410 Para. 63]

**PROPOSED INTERNATIONAL STANDARD ON SUSTAINABILITY  
ASSURANCE (ISSA) 5000 GENERAL REQUIREMENTS FOR  
SUSTAINABILITY ASSURANCE ENGAGEMENTS****APPLICATION MATERIAL (Clean)****Application and Other Explanatory Material****Scope of this ISSA**

[Not yet drafted. To be discussed with the IAASB in June 2023.]

**Definitions***Assertions* (Ref: Para. 1(a))

A1R. Assertions are used by practitioners to consider the different types of potential misstatements that may occur when identifying and assessing, and responding to, the risks of material misstatement. Examples of assertions are provided in Part 6 paragraph A60R.

*Criteria* (Ref: Para. 1(f))

A2. The criteria may specify or include guidance about the sustainability information to be presented. The criteria also may define metrics or other terms to support the evaluation or measurement of the underlying subject matter, as well as the measurement or evaluation basis to be used.

*Disclosures* (Ref: Para. 1(g))

A3. Sustainability information may relate to a number of topics (e.g., climate, labor practices, biodiversity). The information presented by the entity may relate to different aspects of those topics (e.g., risks and opportunities, targets, metrics and key performance indicators). The disclosures about the aspects of the topics can be in various forms (e.g., narrative descriptions, tables with key performance indicators or other quantitative information) and may be limited to a single paragraph or table or may span multiple pages in the sustainability report.

*Engagement Leader* (Ref: Para. 1(i))

A4. The individual appointed as the engagement leader may be a partner or another senior staff member in the firm (e.g., a director or principal) I. Whether the individual is permitted to be an engagement leader in accordance with this standard depends on how the firm assigns responsibilities, and whether law, regulation or professional requirements include requirements that specify who may be permitted to accept responsibility for the engagement (e.g., law, regulation or professional requirements may include requirements for the professional licensing of engagement leaders, including requirements regarding their professional education and continuing professional development).

- A5. The term engagement leader in this ISSA is intended to be the equivalent of “engagement partner” in ISQM 1.<sup>1</sup>

*Engagement Risk* (Ref: Para. 1(j))

- A6. Engagement risk does not refer to, or include, the practitioner’s business risks, such as loss from litigation, adverse publicity, or other events arising in connection with particular subject matter information.
- A7. In general, engagement risk can be represented by the following components:
- (a) Risks that the practitioner does not directly influence, which consist of:
    - (i) The susceptibility of the sustainability information to a material misstatement before consideration of any related controls applied by the entity (inherent risk); and
    - (ii) The risk that a material misstatement that occurs in the sustainability information will not be prevented, or detected and corrected, on a timely basis by the entity’s internal control (control risk); and
  - (b) The risk that the practitioner does directly influence, which is the risk that the procedures performed by the practitioner will not detect a material misstatement (detection risk).
- A8. Reducing engagement risk to zero is very rarely attainable or cost beneficial and, therefore, reasonable assurance is less than absolute assurance, as a result of factors such as the following:
- The use of selective testing.
  - The inherent limitations of internal control.
  - The fact that much of the evidence available to the practitioner is persuasive rather than conclusive.
  - The use of professional judgment in gathering and evaluating evidence and forming conclusions based on that evidence.
  - In some cases, the characteristics of the underlying subject matter when evaluated or measured against the criteria.

*Entity* (Ref: Para. 1(m))

- A9. An example of an identifiable portion of a legal or economic entity is a single factory or other form of facility, such as a landfill site.

*Firm* (Ref: Para. 1(o))

- A10. The legal nature of the entity performing the assurance engagement may take many forms and may not be described as a firm.

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<sup>1</sup> ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph 16(c)

*Partner* (Ref: Para. 1(bb))

A11. As noted in paragraph A10, the entity performing the assurance engagement may not be described as a firm. Therefore, the individual with authority to bind the firm with respect to the performance of the engagement may not carry the title of partner.

*Reporting Boundary* (Ref: Para. 1(kk))

A12. Although the entity's sustainability information and financial statements may relate to the same reporting entity, the reporting boundary for sustainability information may differ from the boundary for purposes of preparing financial statements. For example, the reporting boundary may include activities, operations, relationships or resources up and down the entity's value chain. An entity's supply chain is part of the value chain.

A13. The reporting boundary is determined by the applicable criteria. In some cases, framework criteria may specify the reporting boundary. In other circumstances, the reporting boundary may need to be determined by the entity, in which case the reporting boundary will be part of the entity-developed criteria. The reporting boundary may vary across underlying subject matter (e.g., some key performance indicators may have different boundaries from other key performance indicators because of the nature of the underlying subject matter).

A1. [Deleted]

## **Objectives**

*Engagements with Sustainability Information Comprising a Number of Aspects* (Ref: Para. 1(b))

A1. When the sustainability information comprises a number of topics or aspects of topics, separate conclusions may be provided on each aspect. All such separate conclusions do not need to relate to the same level of assurance. Rather, each conclusion is expressed in the form that is appropriate to either a reasonable assurance engagement or a limited assurance engagement. References in this ISSA to the conclusion in the assurance report include each conclusion when separate conclusions are provided.

## **Part 1: Conduct of an Assurance Engagement in Accordance with this ISSA**

*Complying with this ISSA* (Ref: Para. 2)

- A1. In some cases, another ISSA is also relevant to the engagement. Another ISSA is relevant to the engagement when the ISSA is in effect, the subject matter of the ISSA is relevant to the engagement, and the circumstances addressed by the ISSA exist. [ISAE 3000 (Revised)<sup>2</sup>, Para. A21]
- A2. The ISAs<sup>3</sup> and ISREs<sup>4</sup> have been written for audits and reviews of historical financial information, respectively, and do not apply to other assurance engagements. They may, however, provide guidance in relation to the engagement process for practitioners undertaking a sustainability assurance engagement in accordance with this ISSA. [ISAE 3000 (Revised), Para. A22]

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<sup>2</sup> ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

<sup>3</sup> ISA, *International Standards on Auditing*

<sup>4</sup> ISRE, *International Standards on Related Services*

*Text of an ISSA (Ref: Para. 3)*

A3. ISSAs contain the objectives of the practitioner in following the ISSA, and requirements designed to enable the practitioner to meet those objectives. In addition, they contain related guidance in the form of application and other explanatory material, introductory material that provides context relevant to a proper understanding of the ISSA, and definitions.

A4. The objectives in an ISSA provide the context in which the requirements of the ISSA are set, and are intended to assist in:

(a) Understanding what is to be accomplished; and

(b) Deciding whether more needs to be done to achieve the objectives.

The proper application of the requirements of an ISSA by the practitioner is expected to provide a sufficient basis for the practitioner's achievement of the objectives. However, because the circumstances of assurance engagements vary widely and all such circumstances cannot be anticipated in the ISSA, the practitioner is responsible for determining the procedures necessary to fulfill the requirements of relevant ISSAs and to achieve the objectives stated therein. In the circumstances of an engagement, there may be particular matters that require the practitioner to perform procedures in addition to those required by relevant ISSAs to meet the objectives specified in those ISSAs.

A5. The requirements of ISSAs are expressed as "shall."

A6. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:

(a) Explain more precisely what a requirement means or is intended to cover; and

(b) Include examples that may be appropriate in the circumstances.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in an ISSA. Where appropriate, additional considerations specific to public sector audit organizations or smaller firms are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in the ISSA. They do not, however, limit or reduce the responsibility of the practitioner to apply and comply with the requirements in an ISSA.

A7. Definitions are provided in the ISSA to assist in the consistent application and interpretation of the ISSA, and are not intended to override definitions that may be established for other purposes, whether by laws, regulations or otherwise.

- A8. Appendices form part of the application and other explanatory material. The purpose and intended use of an appendix are explained in the body of the related ISSA or within the title and introduction of the appendix itself. [ISAE 3000 (Revised), Paras. A23-A28]

*Complying with Relevant Requirements* (Ref: Para. 4)

- A9. Although some procedures are required only for reasonable assurance engagements, they may nonetheless be appropriate in some limited assurance engagements. [ISAE 3000 (Revised) Para. A29]

## **Part 2: Fundamental Concepts, General Principles and Overarching Requirements**

*Relevant Ethical Requirements, Including Those Related to Independence* (Ref: Para. 1 and Para 2)

- A1. The IESBA Code sets out the fundamental principles of ethics that establish the standards of behavior expected of an assurance practitioner and establishes the International Independence Standards. The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality and professional behavior. The IESBA Code also specifies the approach that a professional accountant is required to apply to comply with the fundamental principles and, when applicable, the International Independence Standards. In addition, the IESBA Code addresses specific topics relevant to complying with the fundamental principles. Law or regulation in a jurisdiction may also contain provisions addressing ethical requirements, including independence, such as privacy laws affecting the confidentiality of information. [ISQM 1 Para. A62]
- A2. Professional requirements, or requirements imposed by law or regulation, are at least as demanding as the provisions of the IESBA Code related to assurance engagements when they address all the matters referred to in the IESBA Code and impose obligations that achieve the aims of the requirements set out in the IESBA Code related to such engagements. [ISAE 3000 (Revised) Para. A34]
- A3. Statutory measures may provide safeguards for the independence of public sector practitioners. However, public sector practitioners or firms carrying out public sector assurance engagements may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach to promote compliance with paragraph 1. This may include, where the public sector mandate does not permit withdrawal from the engagement, disclosure through a public report of circumstances that have arisen that would, if they were in the private sector, lead the practitioner to withdraw. [ISA 220 (Revised)<sup>5</sup> Para. A48]

*Assurance Skills and Techniques, Professional Skepticism and Professional Judgment* (Ref: Para. 5 and 6)

- A4. Professional skepticism is an attitude that includes being alert to, for example:
- Evidence that is inconsistent with other evidence obtained.
  - Information that calls into question the reliability of responses to inquiries or information intended to be used as evidence.
  - Circumstances that suggest the need for procedures in addition to those required by relevant ISSAs.

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<sup>5</sup> ISA 220 (Revised), *Quality Management for An Audit of Financial Statements*

- Conditions that may indicate likely misstatement.
- Conditions that may indicate possible fraud.

[ISAE 3000 (Revised) Para. A76]

A5. Professional skepticism is necessary to the critical assessment of evidence. This includes questioning inconsistent evidence and the reliability of responses to inquiries and information intended to be used as evidence. It also includes consideration of the sufficiency and appropriateness of evidence obtained in the light of the circumstances. Maintaining professional skepticism throughout the engagement is necessary if the practitioner is, for example, to reduce the risks of:

- Overlooking unusual circumstances.
- Overgeneralizing when drawing conclusions from observations.
- Using inappropriate assumptions in determining the nature, timing, and extent of the procedures, and evaluating the results thereof.

[ISAE 3000 (Revised) Para. A77 & A78]

A6. Unless the engagement involves assurance about whether documents are genuine, the practitioner may accept records and documents as genuine unless the practitioner has reason to believe the contrary. Nevertheless, the practitioner is required by Part 4 paragraph 2 of this ISSA to consider the reliability of information to be used as evidence. [ISAE 3000 (Revised) Para. A79]

A7. The practitioner cannot be expected to disregard past experience of the honesty and integrity of those who provide evidence. Nevertheless, a belief that those who provide evidence are honest and have integrity does not relieve the practitioner of the need to maintain professional skepticism.

[ISAE 3000 (Revised) Para. A80]

A8. Impediments to the exercise of professional skepticism at the engagement level may include, but are not limited to:

- Budget constraints, which may discourage the use of sufficiently experienced or technically qualified resources, including experts, when needed.
- Tight deadlines, which may negatively affect the behavior of those who perform the work as well as those who direct, supervise and review.
- Lack of cooperation or undue pressures imposed by management, which may negatively affect the engagement team's ability to resolve complex or contentious issues.
- Insufficient understanding of the entity and its environment, its system of internal control and the applicable criteria.
- Difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others, which may cause the engagement team to bias the selection of sources of evidence and seek evidence from sources that are more easily accessible.
- Overreliance on automated tools and techniques, which may result in the engagement team not critically assessing evidence.
- When there is no one generally accepted way in which to measure or evaluate and report the sustainability information, which may result in practitioners being less willing to question management's approach.

[ISA 220 (Revised) Para. A34]

A9. Possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level may include:

- Remaining alert to changes in the nature or circumstances of the engagement that necessitate requesting additional or different resources for the engagement.
- Explicitly alerting the engagement team to instances or situations when vulnerability to unconscious or conscious biases may be greater (e.g., areas involving greater judgment).
- Changing the composition of the engagement team, for example, requesting that more experienced individuals with greater skills or knowledge or specific expertise are assigned to the engagement.
- Involving more experienced members of the engagement team in more complex areas of the engagement or when dealing with members of management who are difficult or challenging to interact with.
- Involving members of the engagement team with specialized skills and knowledge or a practitioner's expert to assist the engagement team with complex or subjective areas of the engagement.
- Modifying the nature, timing and extent of direction, supervision or review, for example, by more in-person oversight on a more frequent basis or more in-depth reviews of certain working papers.
- Communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others from whom evidence may be sought.

[ISA 220 (Revised) Para. A36]

A10. Professional judgment is essential to the proper conduct of an assurance engagement. This is because interpretation of relevant ethical requirements and this ISSA, and the informed decisions required throughout the engagement, cannot be made without the application of relevant training, knowledge, and experience to the facts and circumstances. Professional judgment is necessary in particular regarding decisions about:

- The presence of the preconditions for an assurance engagement.
- Materiality and engagement risk.
- The nature, timing and extent of procedures used to meet the requirements of this ISSA and obtain evidence.
- Evaluating whether sufficient appropriate evidence has been obtained, and whether more needs to be done to achieve the objectives of this ISSA. In particular, in the case of a limited assurance engagement, professional judgment is required in evaluating whether a meaningful level of assurance has been obtained.
- The appropriate conclusions to draw based on the evidence obtained.
- The actions to take in exercising professional skepticism.

[ISAE 3000 (Revised) Para. A81]

- A11. The distinguishing feature of the professional judgment expected of a practitioner is that it is exercised by a practitioner whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgments. [ISAE 3000 (Revised) Para. A82]
- A12. The exercise of professional judgment in any particular case is based on the facts and circumstances that are known by the practitioner. It needs to be exercised throughout the engagement and be appropriately documented. Professional judgment can be evaluated based on whether the judgment reached reflects a competent application of assurance and measurement or evaluation principles and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the practitioner up to the date of the practitioner's assurance report. Professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or sufficient appropriate evidence. [ISAE 3000 (Revised) Para. A83-A85]

*Firm-level Quality Management (Ref: Para. 7)*

- A13. This ISSA has been written in the context of a range of measures taken to ensure the quality of assurance engagements. Such measures include:
- Competency requirements, such as education and experience, and ongoing continuing professional development as well as life-long learning requirements.
  - A system of quality management implemented across the firm. ISQM 1 applies to all firms in respect of assurance and related services engagements.
  - A comprehensive Code of Ethics, including detailed independence requirements, founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

[ISAE 3000 (Revised) Para.A60]

- A14. ISQM 1 deals with the firm's responsibilities to design, implement and operate a system of quality management for assurance engagements. It sets out the responsibilities of the firm for establishing quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence. ISQM 1 also deals with the firm's responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews. ISQM 2<sup>6</sup> deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.

A system of quality management addresses the following eight components:

- (a) The firm's risk assessment process;
- (b) Governance and leadership;
- (c) Relevant ethical requirements;
- (d) Acceptance and continuance of client relationships and specific engagements;
- (e) Engagement performance;
- (f) Resources;

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<sup>6</sup> ISQM 2, *Engagement Quality Reviews*

- (g) Information and communication; and
- (h) The monitoring and remediation process.

Firms or national requirements may use different terminology or frameworks to describe the components of the system of quality management. [ISAE 3000 (Revised) Para. A61]

- A15. Other professional requirements, or requirements in law or regulation that deal with the firm's responsibilities to design, implement, and operate a system of quality management, are at least as demanding as ISQM 1 when they address the requirements of ISQM 1 and impose obligations on the firm to achieve the objective of ISQM 1. [ISAE 3000 (Revised) Para. A62]
- A16. A firm's system of quality management includes establishing a monitoring and remediation process designed to:
- (a) Provide the firm with relevant, reliable and timely information about the design, implementation and operation of the system of quality management.
  - (b) Take appropriate actions to respond to identified deficiencies such that deficiencies are remediated by the firm on a timely basis.

[ISAE 3000 (Revised) Para. A64]

- A17. Ordinarily, the engagement team may depend on the firm's system of quality management unless:
- The engagement team's understanding or practical experience indicates that the firm's policies or procedures will not effectively address the nature and circumstances of the engagement; or
  - Information provided by the firm or other parties, about the effectiveness of such policies or procedures suggests otherwise.

For example, the engagement team may depend on the firm's system of quality management in relation to:

- (a) Competence and capabilities of personnel through their recruitment and formal training.
- (b) Independence through the accumulation and communication of relevant independence information.
- (c) Maintenance of client relationships through the firm's policies or procedures for acceptance and continuance of client relationships and assurance engagements.
- (d) Adherence to regulatory and legal requirements through the firm's monitoring and remediation process.

In considering deficiencies identified in the firm's system of quality management that may affect the engagement, the engagement leader may consider the remedial actions undertaken by the firm to address those deficiencies. [ISAE 3000 (Revised) Para. A65]

- A18. A deficiency in the firm's system of quality management does not necessarily indicate that an assurance engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the practitioner's report was not appropriate. [ISAE 3000 (Revised) Para. A66]

*Engagement-level Quality Management* (Ref: Para. 8–28)

Overall Responsibility for Managing and Achieving Quality (Ref: Para. 8–9)

A19. Taking overall responsibility for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement may be demonstrated by the engagement leader in various ways, including:

- Being satisfied that the firm's policies or procedures for the acceptance and continuance of client relationships and assurance engagements have been followed;
- The engagement being planned and performed (including appropriate direction and supervision of engagement team members) in accordance with professional requirements and applicable legal and regulatory requirements;
- Reviews being performed in accordance with the firm's policies or procedures and reviewing the engagement documentation on or before the date of the assurance report;
- Appropriate engagement documentation being maintained to provide evidence of achievement of the practitioner's objectives, and that the engagement was performed in accordance with this ISSA and relevant legal and regulatory requirements.; and
- Appropriate consultation being undertaken by the engagement team on difficult or contentious matters.

[Reclassified to AM from ISAE 3000 (Revised) Para. 33]

A20. The engagement leader remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ISSA. The term “the engagement leader shall take responsibility for...” is used for those requirements that the engagement leader is permitted to assign the design or performance of procedures, tasks or actions to appropriately skilled or suitably experienced members of the engagement team. For requirements in this ISSA that state “the engagement leader shall...”, this ISSA expressly intends that the requirement or responsibility be fulfilled by the engagement leader. In such circumstances, the engagement leader may obtain information from the firm or other members of the engagement team in fulfilling the requirement. [ISA 220 (Revised) Para. 9]

A21. ISQM 1 requires the firm to establish quality objectives that address the firm's governance and leadership that supports the design, implementation and operation of the system of quality management. The engagement leader's responsibility for managing and achieving quality is supported by a firm culture that demonstrates a commitment to quality. A culture that demonstrates a commitment to quality is further shaped and reinforced by the engagement team members as they demonstrate expected behaviors when performing the engagement. [ISA 220 (Revised) Para. A28]

A22. The actions of the engagement leader, and appropriate messages to the other members of the engagement team, emphasize the fact that quality is essential in performing an assurance engagement, and the importance to the quality of the assurance engagement of:

- (a) Performing work that complies with professional requirements and regulatory and legal requirements.
- (b) Complying with the firm's policies or procedures as applicable.
- (c) Issuing a report for the engagement that is appropriate in the circumstances.

- (d) The engagement team's ability to raise concerns without fear of reprisals.

[ISAE 3000 (Revised) Para. A63]

A23. Being sufficiently and appropriately involved throughout the engagement when procedures, tasks or actions have been assigned to other members of the engagement team may be demonstrated by the engagement leader 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, in addition to the requirements in paragraphs 21-24.

[ISA 220 (Revised) Para. A37]

Application of Firm Policies or Procedures by Members of the Engagement Team (Ref: Para. 9)

A23A. Within the context of the firm's system of quality management, engagement team members from the firm are responsible for implementing the firm's policies or procedures that are applicable to the engagement. As engagement team members from another firm are neither partners nor staff of the engagement leader's firm, they may not be subject to the firm's system of quality management or the firm's policies or procedures. Further, the policies or procedures of another firm may not be similar to that of the engagement leader's firm. For example, policies or procedures regarding direction, supervision and review may be different, particularly when the other firm is in a jurisdiction with a different legal system, language or culture than that of the engagement leader's firm. Accordingly, if the engagement team includes individuals who are from another firm, different actions may need to be taken by the firm or the engagement leader to implement the firm's policies or procedures in respect of the work of those individuals. For example, individuals who are not personnel may not be able to complete independence declarations directly on the firm's independence systems. The firm's policies or procedures may state that such individuals can provide evidence of their independence in other ways, such as written confirmation. [ISA 220 (Revised) Para. A23]

*Characteristics of the Engagement Leader* (Ref: Para. 10)

A24. ISQM 1 requires the firm to establish quality objectives that engagement team members are assigned to each engagement, including an engagement leader, who have appropriate competence and capabilities to consistently perform quality engagements.

A25. The engagement leader is required to have sufficient competence in the underlying subject matter, in addition to having competence in assurance skills and techniques, to be able to:

- (a) When needed, ask appropriate questions of a practitioner's expert and evaluate whether the answers make sense in the engagement circumstances;
- (b) Evaluate a practitioner's expert's work and, to the extent needed, integrate it with the work of the engagement team as a whole; and
- (c) Take responsibility for the conclusions reached on the engagement.

[EER<sup>7</sup> Para. 38]

A26. What constitutes sufficient subject matter competence depends on the engagement circumstances and differs from engagement to engagement. Whether the engagement leader has sufficient subject matter competence in order to accept responsibility for the assurance conclusion is a matter of professional judgment for the engagement leader, and may involve taking account of factors such as:

- (a) The judgment involved in identifying the reporting topics for inclusion in the entity's sustainability information;
- (b) The judgment involved in agreeing the sustainability information that is within the scope of the assurance engagement;
- (c) The nature and complexity of the underlying subject matter and its measurement or evaluation;
- (d) The extent to which the underlying subject matter lends itself to precise measurement or whether there is a high degree of measurement uncertainty that may need significant knowledge and judgment in relation to the underlying subject matter; and
- (e) The engagement leader's and engagement team's competence and previous experience in relation to the underlying subject matter.

[EER Para. 32]

A27. A practitioner may be requested to perform assurance engagements with respect to a wide range of underlying sustainability topics. Some may require specialized skills and knowledge beyond those ordinarily possessed by a particular individual. See also paragraph 17 addressing the competence and capabilities of the engagement team. [ISAE 3000 (Revised) Para. A67 supplemented by ISQM 1 Para. A88]

*Other Responsibilities of the Engagement Leader (Ref: Para. 11–12)*

*Acceptance and Continuance (Ref: Para. 11-12)*

A28. Under ISQM 1, for acceptance and continuance decisions, the firm is required to make judgments about the firm's ability to perform the engagement in accordance with professional requirements and applicable legal and regulatory requirements. The engagement leader may use the information considered by the firm in this regard in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and engagements are appropriate. If the engagement leader has concerns regarding the appropriateness of the conclusions reached, the engagement leader may discuss the basis for those conclusions with those involved in the acceptance and continuance process. [ISA 220 (Revised) Para. A51]

A29. If the engagement leader is directly involved throughout the firm's acceptance and continuance process, the engagement leader will be aware of the information obtained or used by the firm in reaching the related conclusions. Such direct involvement may also provide a basis for the engagement leader's determination that the firm's policies or procedures have been followed and that the conclusions reached are appropriate. [ISA 220 (Revised) Para. A52]

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<sup>7</sup> Non-Authoritative Guidance on Sustainability and Other Extended External Reporting Assurance Engagements (EER)

- A30. In circumstances when the firm is obligated by law or regulation to accept or continue an assurance engagement, the engagement leader may take into account information obtained by the firm about the nature and circumstances of the engagement. [ISA 220 (Revised) Para. A56]

Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 13–15)

- A31. Open and robust communication between the members of the engagement team about relevant ethical requirements may also assist in:

- Drawing the attention of engagement team members to relevant ethical requirements that may be of particular significance to the assurance engagement; and
- Keeping the engagement leader informed about matters relevant to the engagement team's understanding and fulfillment of relevant ethical requirements and the firm's related policies or procedures.

[ISA 220 (Revised) Para.A42]

- A32. [Not used]

- A33. In accordance with ISQM 1, the firm's responses to address the quality risks in relation to relevant ethical requirements, including those related to independence for engagement team members, include policies or procedures for identifying, evaluating and addressing threats to compliance with the relevant ethical requirements. [ISA 220 (Revised) Para. A43]

- A34. Appropriate actions may include, for example:

- Following the firm's policies or procedures regarding breaches of relevant ethical requirements, including communicating to or consulting with the appropriate individuals so that appropriate action can be taken, including as applicable, disciplinary action(s).
- Communicating with those charged with governance.
- Communicating with regulatory authorities or professional bodies. In some circumstances, communication with regulatory authorities may be required by law or regulation.
- Seeking legal advice.
- Withdrawing from the assurance engagement, when withdrawal is possible under applicable law or regulation.

[ISA 220 (Revised) Para. A46]

Engagement Resources (Ref: Para. 16–20)

- A35. Resources include human, technological and intellectual resources. Human resources include members of the engagement team and, where applicable, a practitioner's external expert. Technological resources include technological tools that may allow the practitioner to more effectively and efficiently manage the engagement. Intellectual resources include, for example, assurance methodologies, implementation tools, assurance guides, model programs, templates, checklists or forms. [ISA 220 (Revised) Para. A62, A63 & A68]

- A36. In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, the engagement leader ordinarily may depend

on the firm's related policies or procedures (including resources). For example, based on information communicated by the firm, the engagement leader may be able to depend on the firm's technological development, implementation and maintenance programs when using firm-approved technology to perform procedures.

**[ISA 220 (Revised) Para. A70]**

A37. When determining that the engagement team has the appropriate competence and capabilities, the engagement leader may take into consideration such matters as the team's:

- Understanding of, and practical experience with, sustainability assurance engagements of a similar nature and complexity through appropriate training and participation.
- Understanding of professional requirements and applicable legal and regulatory requirements.
- Expertise in the specific subject matter of the engagement.
- Expertise in IT used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the engagement.
- Knowledge of relevant industries in which the entity operates.
- Ability to exercise professional skepticism and professional judgment.
- Understanding of the firm's policies or procedures.

**[ISA 220 (Revised) Para. A71]**

A38. Some of the assurance work may be performed by a multi-disciplinary team that includes one or more practitioner's expert(s), particularly on relatively complex engagements when competence in one or more underlying subject matters included in the sustainability information is likely to be required. For example, a practitioner's expert may be needed to assist the practitioner in one or more of the following:

- Obtaining an understanding of the entity and its environment, including its internal control.
- Performing risk procedures, including (in a reasonable assurance engagement) identifying and assessing the risks of material misstatement.
- Responding to risks, including (in a reasonable assurance engagement) determining and implementing overall responses to assessed risks of misstatement of the sustainability information.
- Evaluating the sufficiency and appropriateness of evidence obtained in forming a conclusion on the sustainability information.

**[ISA 620<sup>8</sup> Para. A4]**

A39. The more complex the engagement, the more necessary it may be to consider how the work of practitioners and the work of practitioner's experts is to be integrated across the engagement. The appropriate application of competence in performing the engagement depends on the practitioners and practitioner's experts who are to perform the engagement:

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<sup>8</sup> ISA 620, *Using the Work of an Auditor's Expert*

- Both having the appropriate competence to perform the roles assigned to them; and
- Working together effectively as a multidisciplinary team in performing the engagement.

[EER Para. 35]

A40. Considerations when deciding whether to use a practitioner's expert may include:

- Whether management has used a management's expert in preparing the sustainability information (see paragraph A41).
- The nature and significance of the sustainability information, including its complexity.
- The risks of material misstatement in the disclosures.
- The expected nature of procedures to respond to identified risks, including: the practitioner's knowledge of and experience with the work of experts in relation to such matters; and the availability of alternative sources of evidence.

[ISA 620 Para. A8]

A41. When management has used a management's expert in preparing the sustainability information, the practitioner's decision on whether to use a practitioner's expert may also be influenced by such factors as:

- The nature, scope and objectives of the management's expert's work.
- Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services.
- The extent to which management can exercise control or influence over the work of the management's expert.
- The management's expert's competence and capabilities.
- Whether the management's expert is subject to technical performance standards or other professional or industry requirements.
- Any controls within the entity over the management's expert's work.
- Part 4 includes requirements and guidance regarding the effect of the competence, capabilities and objectivity of management's experts on the reliability of evidence.

[ISA 620 Para. A9]

A42. Paragraph 8 requires the engagement leader to be sufficiently and appropriately involved throughout the engagement such that the engagement leader has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement. Such involvement extends to the work performed by a practitioner's external expert or another practitioner (see paragraph 18). Sufficient involvement includes the ability to direct and supervise the work of a practitioner's external expert or another practitioner and review their work, based on the cooperation of the practitioner's external expert or other practitioner and effective communication between the practitioner and such individuals.

- A43. There may be circumstances when the practitioner cannot be sufficiently involved in the work of another practitioner, including situations when that other practitioner has already performed work. For example, another practitioner may have conducted a separate assurance engagement that is relevant to the practitioner's engagement (e.g., an assurance engagement on an entity's greenhouse gas emissions, removals and storage). In such circumstances paragraph 28 explains relevant considerations for the practitioner with respect to whether, and to what extent, the practitioner may be able to use that work for the practitioner's purposes.
- A44. The engagement leader's determination of whether additional engagement level resources are required is a matter of professional judgment and is influenced by the requirements of this ISSA and the nature and circumstances of the engagement. In certain circumstances, the engagement leader may determine that the firm's responses to quality risks are ineffective in the context of the specific engagement, including that certain resources assigned or made available to the engagement team are insufficient. In those circumstances, the engagement leader is required to take appropriate action, including communicating such information to the appropriate individuals in accordance with paragraph 19. For example, if an assurance software program provided by the firm has not incorporated new or revised procedures in respect of sustainability disclosures required by new or revised reporting standards, timely communication of such information to the firm enables the firm to take steps to update and reissue the software promptly or to provide an alternative resource that enables the engagement team to comply with the new regulation in the performance of the engagement. [ISA 220 (Revised) Para.A77]
- A45. In an engagement addressing consolidated sustainability information, the engagement's leader's determination whether the resources assigned or made available are sufficient and appropriate may include considering whether there is a need to involve another practitioner at one or more locations to obtain evidence.
- A46. If the resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement and additional or alternative resources have not been made available, appropriate actions may include:
- Changing the planned approach to the nature, timing and extent of direction, supervision and review (see also paragraph 22).
  - Discussing an extension to reporting deadlines with management or those charged with governance, when an extension is possible under applicable law or regulation.
  - Following the firm's policies or procedures for resolving differences of opinion if the engagement leader does not obtain the necessary resources for the engagement.
  - Following the firm's policies or procedures for withdrawing from the engagement, when withdrawal is possible under applicable law or regulation.

[ISA 220 (Revised) Para.A78]

- A47. The firm's policies or procedures may include required considerations or responsibilities for the engagement team when using firm approved technological tools to perform procedures and may require the involvement of individuals with specialized skills or expertise in evaluating or analyzing the output. The engagement team may be required, in accordance with the firm's policies or procedures, to use the firm's assurance methodology and specific tools and guidance. The engagement team may also consider whether the use of other intellectual resources is appropriate and relevant based on the nature and circumstances of the engagement, for example, an industry

specific assurance methodology or related guides and performance aids.  
[ISA 220 (Revised) Para.A64 & A69]

Direction, Supervision and Review (Ref: Para. 21–24)

- A48. ISQM 1 requires that direction, supervision and review is planned and performed on the basis that the work performed by less experienced engagement team members is directed, supervised and reviewed by more experienced engagement team members. [ISAE 3000 (Revised) Para. A74]
- A49. Direction and supervision of the engagement team and the review of their work are firm-level responses that are implemented at the engagement level, of which the nature, timing and extent may be further tailored by the engagement leader in managing the quality of the engagement. Accordingly, the approach to direction, supervision and review will vary from one engagement to the next, taking into account the nature and circumstances of the engagement. The approach will ordinarily include a combination of addressing the firm's policies or procedures and engagement specific responses. [ISA 220 (Revised) Para. A82]
- A50. When an engagement is not carried out entirely by the engagement leader, or in an engagement of an entity whose nature and circumstances are more complex, it may be necessary for the engagement leader to assign direction, supervision, and review to other members of the engagement team. However, as part of the engagement leader's overall responsibility for managing and achieving quality on the engagement and to be sufficiently and appropriately involved, the engagement leader is required to determine that the nature, timing and extent of direction, supervision and review is undertaken in accordance with paragraph 22. In such circumstances, personnel or members of the engagement team may provide information to the engagement leader to enable the engagement leader to make the determination required by paragraph 22. [ISA 220 (Revised) Para.A80]
- A51. The approach to the direction and supervision of the members of the engagement team and the review of their work provides support for the engagement leader in fulfilling the requirements of this ISSA, and in concluding that the engagement leader has been sufficiently and appropriately involved throughout the engagement in accordance with Part 8 paragraph 29. [ISA 220 (Revised) Para.A83]

*Direction*

- A52. Direction of the engagement team may involve informing the members of the engagement team of their responsibilities, such as:
- Contributing to the management and achievement of quality at the engagement level through their personal conduct, communication and actions.
  - Maintaining a questioning mind and being aware of unconscious or conscious biases in exercising professional skepticism when gathering and evaluating evidence.
  - Addressing threats to the achievement of quality, and the engagement team's expected response. For example, budget constraints or resource constraints should not result in the engagement team members modifying planned procedures or failing to perform planned procedures.
  - Fulfilling relevant ethical requirements.
  - Understanding the objectives of the work to be performed and the detailed instructions

regarding the nature, timing and extent of planned assurance procedures as set forth in the overall engagement strategy and plan.

- The responsibilities of respective engagement team members to perform procedures and of more experienced engagement team members to direct, supervise and review the work of less experienced engagement team members.

[ISA 220 (Revised) Para. A85]

### *Supervision*

A53. Supervision may include matters such as:

- Tracking the progress of the engagement, which includes monitoring:
  - The progress against the engagement plan;
  - Whether the objective of work performed has been achieved; and
  - The ongoing adequacy of assigned resources.
- Taking appropriate action to address issues arising during the engagement, including for example, reassigning planned procedures to more experienced engagement team members when issues are more complex than initially anticipated.
- Identifying matters for consultation or consideration by more experienced engagement team members during the engagement.
- Providing coaching and on-the-job training to help engagement team members develop skills or competencies.
- Creating an environment where engagement team members raise concerns without fear of reprisals.

[ISA 220 (Revised) Para. A86]

### *Review*

A54. Review of the engagement team's work consists of consideration of whether, for example:

- The work has been performed in accordance with the firm's policies or procedures, professional requirements and applicable legal and regulatory requirements;
- Significant matters have been raised for further consideration;
- Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- There is a need to revise the nature, timing and extent of work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to provide a basis for the practitioner's conclusion; and
- The objectives of the procedures have been achieved.

[ISA 220 (Revised) Para. A88]

*Nature, Timing & Extent (Ref. Para. 22 – 23)*

A55. 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 subject matter.
- The complexity of the engagement.
- The assessed risks of material misstatement (in a reasonable assurance engagement).
- The competence and capabilities of the individual engagement team members performing the work.
- The manner in which the reviews of the work performed are expected to take place (remote or in-person).
- The structure of the engagement team and the location of engagement team members.

[ISA 220 (Revised) Para. A95]

A56. Timely review of documentation by the engagement leader at appropriate stages throughout the engagement enables significant matters to be resolved to the engagement leader's satisfaction on or before the date of the practitioner's report. The engagement leader need not review all engagement documentation. [ISA 220 (Revised) Para.A91]

A57. Judging the significance of a matter requires an objective analysis of the facts and circumstances. Examples of significant matters include:

- Matters, in a reasonable assurance engagement, that give rise to higher assessed risks of material misstatement.
- Results of procedures indicating that the sustainability information could be materially misstated.
- Circumstances that cause the practitioner significant difficulty in applying necessary procedures.
- Findings that could result in a modification to the assurance conclusion or the inclusion of an Emphasis of Matter paragraph in the assurance report.

[ISA 230<sup>9</sup> Para. A8]

A58. The engagement leader 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 may include matters related to planning and performing the engagement, as well as the conclusions reached by the engagement team, for example:

- Planning the engagement, such as matters related to determining materiality.
- The composition of the engagement team, including:
  - Personnel using expertise in a specific subject matter;

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<sup>9</sup> ISA 230, *Audit Documentation*

- The use of personnel from service delivery centers.
- The decision to involve a practitioner'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 procedures, including situations when the identification of risks of material misstatement (in a reasonable assurance engagement) or areas of the sustainability information where material misstatements are likely to arise (in a limited assurance engagement) requires significant judgment by the engagement team.
- Results of the procedures performed by the engagement team on areas of the engagement involving significant management judgment.
- The engagement team's evaluation of the work performed by experts and conclusions drawn therefrom.
- In engagements addressing consolidated sustainability information:
  - The proposed overall engagement strategy and plan for addressing the consolidated sustainability information; and
  - Decisions about the involvement of other practitioners, including how to direct and supervise them and review their work, including, for example, when, in a reasonable assurance engagement, another practitioner performs work on areas of higher assessed risk of material misstatement of the sustainability information
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
- The evaluation of matters that may give rise to a modification of the assurance conclusion.

[ISA 220 (Revised) Para. A92]

A59. The engagement leader exercises professional judgment in determining other matters to review, for example based on:

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

[ISA 220 (Revised) Para. A93]

A60. The engagement leader uses professional judgment in determining which written communications to review, taking into account the nature and circumstances of the engagement. For example, it may not be necessary for the engagement leader to review communications between the engagement team and management in the ordinary course of the engagement. [ISA 220 (Revised) Para. A98]

**Monitoring and Remediation (Ref: Para. 25)**

A61. In considering information communicated by the firm through its monitoring and remediation process and how it may affect the engagement, the engagement leader may consider the remedial actions designed and implemented by the firm to address identified deficiencies and, to the extent relevant to the nature and circumstances of the engagement, communicate accordingly to the engagement team. The engagement leader may also determine whether additional remedial actions are needed at the engagement level. For example, the engagement leader may determine that:

- A practitioner's expert is needed; or
- The nature, timing and extent of direction, supervision and review needs to be enhanced in an area of the engagement where deficiencies have been identified.

If an identified deficiency does not affect the quality of the engagement (e.g., if it relates to a technological resource that the engagement team did not use) then no further action may be needed.

[ISA 220 (Revised) Para. A111]

**Work Performed by Others (Ref: Para. 27–29)**

*Work Performed by a Practitioner's External Expert (Ref: Para. 27)*

A62. The practitioner has sole responsibility for the assurance conclusion expressed, and that responsibility is not reduced by the practitioner's use of the work of a practitioner's external expert. Nonetheless, if the practitioner using the work of a practitioner's external expert, having followed this ISSA, concludes that the work of that expert is adequate for the practitioner's purposes, the practitioner may accept that expert's findings or conclusions in the expert's field as appropriate evidence. [ISAE 3000 (Revised) Para. A68]

A63. The nature, timing and extent of procedures with respect to the requirement in paragraph 27 of this ISSA will vary depending on the circumstances. Relevant considerations may include:

- (a) The significance of that expert's work in the context of the engagement (see also paragraphs A64-A66);
- (b) The nature of the matter to which that expert's work relates;
- (c) The risks of material misstatement of the sustainability information (in a reasonable assurance engagement) or the areas of the sustainability information in which material misstatements are likely to arise (in a limited assurance engagement) to which that expert's work relates; and
- (d) The practitioner's knowledge of and experience with previous work performed by that expert;

[ISAE 3000 (Revised) Para.A121]

A64. Sustainability assurance engagements may be performed on a wide range of underlying subject matters that require specialized skills and knowledge beyond those possessed by the engagement leader and other members of the engagement team and for which the work of a practitioner's external expert is used. In some situations, the practitioner's external expert will be consulted to provide advice on an individual matter, but the greater the significance of the practitioner's external expert's work in the context of the engagement, the more likely it is that expert will work as part of a multi-disciplinary team comprising subject matter experts and other assurance personnel. The more that expert's work is integrated in nature, timing and extent with the overall work effort, the more important effective two-

way communication is between the practitioner's external expert and other assurance personnel. Effective two-way communication facilitates the proper integration of the expert's work with the work of others on the engagement. [ISAE 3000 (Revised) Para.A122]

A65. When the work of a practitioner's external expert is to be used, it may be appropriate to perform some of the procedures required by paragraph 27 at the engagement acceptance or continuance stage. This is particularly so when the work of the practitioner's external expert will be fully integrated with the work of other assurance personnel and when the work of the practitioner's external expert is to be used in the early stages of the engagement, for example during initial planning and risk procedures. [ISAE 3000 (Revised) Para.A123]

A66. The competence, capabilities and objectivity of a practitioner's external expert are factors that significantly affect whether the work of the practitioner's external expert will be adequate for the practitioner's purposes. Information regarding the competence, capabilities and objectivity of a practitioner's external expert may come from a variety of sources, such as:

- Personal experience with previous work of that expert.
- Discussions with that expert.
- Discussions with other practitioners or others who are familiar with that expert's work.
- Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
- Understanding whether that expert's work is subject to technical performance standards or other professional or industry requirements, for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body.
- Published papers or books written by that expert.

[ISAE 3000 (Revised) Para.A126]

A67. The evaluation of whether the threats to objectivity are at an acceptable level may depend upon the role of the practitioner's external expert and the significance of the expert's work in the context of the engagement. In some cases, it may not be possible to eliminate circumstances that create threats or apply safeguards to reduce threats to an acceptable level, for example, if a proposed practitioner's external expert is an individual who has played a significant role in preparing the sustainability information. [ISAE 3000 (Revised) Para.A128]

A68. When evaluating the objectivity of a practitioner's external expert, it may be relevant to:

- Inquire of the appropriate party(ies) about any known interests or relationships that the appropriate party(ies) has with the practitioner's external expert that may affect that expert's objectivity.
- Discuss with that expert any applicable safeguards, including any professional requirements that apply to that expert, and evaluate whether the safeguards are adequate to reduce threats to an acceptable level. Interests and relationships that it may be relevant to discuss with the practitioner's expert include:
  - Financial interests.

- Business and personal relationships.
- Provision of other services by the expert, including by the organization in the case of an external expert that is an organization.

In some cases, it may also be appropriate for the practitioner to obtain a written representation from the practitioner's external expert about any interests or relationships with the entity or engaging party of which that expert is aware. [ISAE 3000 (Revised) Para.A129]

A69. Having a sufficient understanding of the field of expertise of the practitioner's external expert enables the practitioner to:

- (a) Agree with the practitioner's expert the nature, scope and objectives of that expert's work for the practitioner's purposes;
- (b) Understand what assumptions, data and methods, including models where applicable, are used by the practitioner's expert, and whether they are generally accepted within that expert's field and appropriate in the circumstances of the engagement; and
- (c) Evaluate the adequacy of that work for the practitioner's purposes.

[ISAE 3000 (Revised) Para.A130]

A70. It may be appropriate for the practitioner's agreement with the practitioner's expert to also include matters such as the following:

- (a) The respective roles and responsibilities of the practitioner and that expert;
- (b) The nature, timing and extent of communication between the practitioner and that expert, including the form of any report to be provided by that expert; and
- (c) The need for the practitioner's expert to observe confidentiality requirements.

[ISAE 3000 (Revised) Para.A132]

*Work Already Performed by Another Practitioner for a Different Purpose (Ref: Para. 28)*

A71. In planning and performing the engagement, the practitioner may become aware of work performed by another practitioner, which may be relevant to, and provide a potential source of evidence, for the practitioner's engagement. The practitioner exercises professional judgment in determining whether the work of another practitioner is relevant to and is appropriate for purposes of the engagement, and the nature and extent to which the work of another practitioner can be used in the circumstances.

[ISA 610 (Revised)<sup>10</sup> Para. A5]

A72. The extent to which another practitioner's policies and procedures support the objectivity of the other practitioner and the level of competence of the other practitioner are particularly important in determining whether to use and, if so, the nature and extent of the use of the work of another practitioner that is appropriate in the circumstances. [ISA 610 (Revised) Para. A6]

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<sup>10</sup> ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

A73. Evaluating whether the nature, scope and objectives of another practitioner's work are appropriate for the practitioner's purposes ordinarily includes obtaining an understanding of:

- The nature of the engagement and whether it exhibited a rationale purpose;
- The applicable criteria;
- The scope of the engagement;
- Whether it was a limited or reasonable assurance engagement.

A74. Relevant matters that the engagement team may request another practitioner to communicate include:

- Whether the other practitioner has complied with ethical requirements that are relevant to the engagement, including independence and professional competence.
- Information on instances of non-compliance with law or regulation that could give rise to a material misstatement of the sustainability information.
- A list of uncorrected misstatements identified by the other practitioner during the engagement that are not clearly trivial.
- Indicators of possible bias in the preparation of relevant information.
- Description of any identified significant deficiencies in internal control identified by the other practitioner during the engagement.
- Other significant matters that the other practitioner has communicated or expects to communicate to the entity, including fraud or suspected fraud.
- Any other matters that may be relevant to the sustainability information, or that the other practitioner wishes to draw to the attention of the engagement team, including exceptions noted in any written representations that the other practitioner requested from the entity.
- The other practitioner's overall findings, conclusion or opinion.

[ISAE 3410<sup>11</sup> Para. A114]

A75. While paragraphs A62-A70 have been written in the context of using work performed by a practitioner's expert, they may also provide helpful guidance with respect to using work performed by another practitioner, or the internal audit function. [ISAE 3000 (Revised) Para. A136]

*Work Performed by the Internal Audit Function (Ref: Para. 29)*

A76. In determining whether the work of the internal audit function can be used for purposes of the engagement, a first consideration is whether the planned nature and scope of the work of the internal audit function that has been performed, or is planned to be performed, is relevant to the overall engagement strategy and plan that the practitioner has established. [ISA 610 (Revised) Para. A15]

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<sup>11</sup> ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

- A77. The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors and the level of competence of the function are particularly important in determining whether to use and, if so, the nature and extent of the use of the work of the function that is appropriate in the circumstances. [ISA 610 (Revised) Para. A6]
- A78. Factors that may affect the practitioner's determination of whether the internal audit function applies a systematic and disciplined approach include the following:
- The existence, adequacy and use of documented internal audit procedures or guidance covering such areas as risk assessments, work programs, documentation and reporting, the nature and extent of which is commensurate with the size and circumstances of an entity.
  - Whether the internal audit function has appropriate quality control policies and procedures, for example, policies and procedures that would be applicable to an internal audit function (such as those relating to leadership, human resources and engagement performance) or quality control requirements in standards set by the relevant professional bodies for internal auditors. Such bodies may also establish other appropriate requirements such as conducting periodic external quality assessments.

[ISA 610 (Revised) Para. A11]

#### **Fraud (Ref: Para. 30)**

- A79. Maintaining professional skepticism requires an ongoing questioning of whether the information and evidence obtained suggests that a material misstatement due to fraud may exist. It includes considering the reliability of the information to be used as evidence and the controls over its preparation and maintenance where relevant. Due to the characteristics of fraud, the practitioner's professional skepticism is particularly important when considering material misstatement due to fraud, which may include omission of information and/or deliberate bias.
- A80. When the reporting of sustainability information is less mature, this may increase the risk of fraud, particularly when there are pressures to conform to publicly announced goals. Misstatements due to fraud in sustainability information may relate to matters such as:
- (a) Misstating sustainability information to avoid penalties or fines, potentially aggressive or over-optimistic internal or external goals, intentionally inaccurate or misleading product or corporate public statements or claims.
  - (b) Misstating sustainability information to enable the entity to be favorably considered in relation to future endeavors, or to be a factor in funding, supplier or customer arrangements or negotiations.
  - (c) Intentionally reporting sustainability information relating to performance or compensation incentives in a biased way in order to influence the outcome of the performance reward or compensation.
  - (d) Pressures linked to obtaining certain credentials or recognitions (e.g., a 'green' seal or rating), or to meet certain contractual conditions

[EER Para 311-312]

A81. The practitioner may:

- Consider the extent to which the risk of material misstatement due to fraud is relevant to the engagement;
- Remain alert, throughout the engagement including when considering accumulated misstatements, to the possibility that misstatements due to fraud may occur; and
- Respond appropriately if there are indicators that there may be material misstatements of the subject matter information due to fraud.

[EER Para 313]

**Law and Regulation (Ref: Para. 31–36)**

A81A. The effect on the sustainability information of laws and regulations will vary. Those laws and regulations to which an entity is subject constitute the legal and regulatory framework. The provisions of some laws or regulations may have a direct effect on the sustainability information, in that they may determine the disclosures required to be included in an entity's sustainability report.

[ISA 250 (Revised)<sup>12</sup> Para.2]

A82. To obtain a general understanding of the legal and regulatory framework, and how the entity complies with that framework, the practitioner may, for example:

- Use the practitioner's existing understanding of the entity's industry, regulatory and other external factors;
- Update the understanding of those laws and regulations that establish criteria, frameworks, standards or guidance;
- Inquire of management as to other laws or regulations that may be expected to have a fundamental effect on the operations of the entity; and
- Inquire of management concerning the entity's policies and procedures regarding compliance with laws and regulations.

[ISA 250 (Revised) Para.A11]

A83. Examples of circumstances that may cause the practitioner to evaluate the implications of identified or suspected non-compliance on the reliability of written representations received from management and, where applicable, those charged with governance include when:

- The practitioner suspects or has evidence of the involvement or intended involvement of management and, where applicable, those charged with governance in any identified or suspected non-compliance.
- The practitioner is aware that management and, where applicable, those charged with governance have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorized reporting of, the matter to an appropriate authority within a reasonable period. [ISA 250 (Revised) Para.A24]

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<sup>12</sup> ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

**Communication with Management, Those Charged with Governance and Others (Ref: Para. 37)**

A84. Significant matters that may be appropriate to communicate with the engaging party, those charged with governance or others include identified fraud or suspected fraud, identified deficiencies in internal control, bias in the preparation of the subject matter information, or other identified significant matters. The practitioner may also communicate significant difficulties encountered during the engagement. [ISAE 3000 (Revised) Para. A193]

A85. Other significant matters discussed, or subject to correspondence with management may include such matters as:

- Significant events or transactions that occurred during the year.
- Concerns about management's use of work of an expert or information obtained from external sources.
- Significant matters on which there was disagreement with management.

[ISA 260 (Revised)<sup>13</sup> Para A22]

A86. Significant difficulties encountered during the engagement 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 practitioner to perform procedures.
- An unreasonably brief time within which to complete the engagement.
- Extensive unexpected effort required to obtain sufficient appropriate evidence.
- The unavailability of expected information.
- Restrictions imposed on the practitioner by management.

In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the practitioner's assurance conclusion.

[ISA 260 (Revised) Para A21]

A87. Relevant ethical requirements may include a requirement to report identified or suspected non-compliance with laws and regulations to an appropriate level of management or those charged with governance. In some jurisdictions, law or regulation may restrict the practitioner's communication of certain matters with the responsible party, management or 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 practitioner is required to report the identified or suspected non-compliance to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the practitioner may be complex and the practitioner may consider it appropriate to obtain legal advice. [ISAE 3000 (Revised) Para. A194]

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<sup>13</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

A88. Law, regulation or relevant ethical requirements may:

- (a) Require the practitioner to report identified or suspected non-compliance with laws and regulations 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.

[ISAE 3000 (Revised) Para. A195]

A89. Reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be required or appropriate in the circumstances because:

- (a) Law, regulation or relevant ethical requirements require the practitioner to report;
- (b) The practitioner has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements; or
- (c) Law, regulation or relevant ethical requirements provide the practitioner with the right to do so.

[ISAE 3000 (Revised) Para. A196]

A90. The reporting of identified or suspected non-compliance with laws and regulations in accordance with law, regulation or relevant ethical requirements may include non-compliance with laws and regulations that the practitioner comes across or is made aware of when performing the engagement but which may not affect the sustainability information. Under this ISAA, the practitioner is not expected to have a level of understanding of laws and regulations beyond those affecting the sustainability information. However, law, regulation or relevant ethical requirements may expect the practitioner to apply knowledge, professional judgment and expertise in responding to such non-compliance. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. [ISAE 3000 (Revised) Para. A197]

A91. In some circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the practitioner's duty of confidentiality under law, regulation, or relevant ethical requirements. In other cases, reporting identified or suspected non-compliance to an appropriate authority outside the entity would not be considered a breach of the duty of confidentiality under the relevant ethical requirements. [ISAE 3000 (Revised) Para. A198]

A92. A public sector practitioner may be obliged to report on identified or suspected non-compliance to the legislature or other governing body or to report them in the practitioner's report. [ISA 250 (Revised) Para. A34]

#### **Documentation (Ref: Para. 38-39)**

A93. When dealing with circumstances that may pose risks to achieving quality on the engagement, the exercise of professional skepticism, and the documentation of the practitioner's consideration thereof, may be important. For example, if the engagement leader obtains information that may have caused the firm to decline the engagement (see paragraph 12), the documentation may include explanations of how the engagement team dealt with the circumstance. [ISA 220 (Revised) Para. A119]

## Part 3: Acceptance and Continuance of the Assurance Engagement

### Establishing the Preconditions are Present

#### *Obtaining a Preliminary Knowledge of the Engagement Circumstances (Ref: Para.1)*

A1. The practitioner's preliminary knowledge of the engagement circumstances described in Definitions paragraph 1(h) may be different in nature and less in extent than the understanding required for performing risk procedures. In addition to the matters in paragraph 1, the engagement circumstances may also include

- (a) With respect to the level of assurance to be obtained, whether there are different levels of assurance for different disclosures, for example:
  - (i) Limited assurance on disclosures related to the social topic and reasonable assurance on disclosures related to the environmental topic.
  - (ii) Limited assurance on disclosures about risks and opportunities related to the social topic, and reasonable assurance on the process to prepare the disclosures related to the social topic.

(b) How the applicable criteria were selected or developed;

[Moved to (e) below]

- (c) If the sustainability information within the scope of the assurance engagement is not all of the sustainability information expected to be reported, the reasons why the practitioner is being requested to assure only part of the sustainability information to be reported;
- (d) Where the sustainability information is to be presented, for example, included in a regulatory filing or in a standalone report; and
- (e) Other matters, for example, events, transactions, conditions and practices, that may have a significant effect on the assurance engagement.

[EER Para. 113]

A2. [Moved to paragraph A49A]

A3. [Moved to paragraph A49B]

A4. [Moved to paragraph A49C]

A5. [Moved to paragraph A6B]

A6. When obtaining the preliminary knowledge of the engagement circumstances, the practitioner may become aware of matters that may be relevant to determining whether the preconditions for an assurance engagement are present, such as:

- (a) The underlying subject matter is complex and diverse, and the disclosures are more qualitative than quantitative, or more forward-looking than historical;
- (b) The entity's process to prepare the sustainability information or other components of the entity's system of internal control relevant to the preparation of the sustainability information do not appear to be fully developed;
- (c) The criteria comprise only aspects of a framework (i.e., not the entire framework), have been

selected from numerous frameworks, or include a significant element of entity-developed criteria;

- (d) The sustainability information only covers a part of the information which could reasonably be expected to be reported in the circumstances; or
- (e) The proposed scope of the assurance engagement is limited to certain sustainability information and has been determined by management or those charged with governance (i.e., there may be management bias in selecting the sustainability information within the scope of the assurance engagement).

[EER Chapter 3 para.68-69]

Obtaining a Preliminary Knowledge of the Scope of the Proposed Assurance Engagement (Ref: Para.1(b))

A6A. The scope of the assurance engagement may vary, for example, it may be limited to specific disclosures (e.g., assurance on key performance indicators for product recycling rates) or cover the entity's entire sustainability information (e.g., the entity's sustainability report). In obtaining a preliminary knowledge of the scope of the proposed assurance engagement, the practitioner may consider whether the assurance engagement encompasses:

- (a) The entity's entire sustainability information, or only specific disclosures;
- (b) Specific topics (e.g., environmental or social matters), or aspects of the topics (e.g., risks and opportunities on social matters); or
- (c) The entire reporting boundary covered by the sustainability information, or only certain jurisdictions, entities, operations or facilities within the reporting boundary. [Moved from paragraph A11]

[EER Para. 89]

A6B. The reporting boundary(ies) may be consistent across the sustainability information or may vary between topics, aspects of the topics or disclosures. In obtaining preliminary knowledge of the reporting boundary(ies), the practitioner may consider whether the reporting boundary(ies):

- (a) Relates to the entity, multiple entities, the entity's value chain(s), specific jurisdictions, activities, operations, locations or facilities.
- (b) Extend beyond the operational control of the entity.
- (c) Are established in framework criteria or entity-developed criteria.
- (d) Are consistent between different topics, aspects of those topics or disclosures, and if inconsistent, whether such inconsistency is appropriate based on the applicable criteria.

[Moved from paragraph A5]

A6C. In some circumstances, the scope of the assurance engagement may be limited to certain aspects of the entity's reporting boundary, for example, certain jurisdictions, or only sustainability information related directly to the entity and to activities or relationships that have as specific proximity to the entity upstream or downstream in the value chain. The reporting boundary within the scope of the assurance engagement may be established in law, regulation or professional requirements, or it may

be determined by the appropriate party(ies). In determining whether the sustainability information within the scope of the engagement is appropriate, the practitioner may consider:

- (a) Whether the sustainability information within the scope of the assurance engagement is likely to meet the information needs of intended users; and
- (b) How the sustainability information will be presented and whether intended users may misinterpret what has, and has not, been assured.

[Moved from paragraph A12 and A13] [ISAE 3000 (Revised) Para. A44]

Determining Whether the Preconditions are Present (Ref: Para. 2)

A6D. The preconditions for an assurance engagement are not affected by the level of assurance, that is, if the preconditions are not present for a reasonable assurance engagement, then they are not present for a limited assurance engagement, and vice versa. The preconditions not being present for a reasonable assurance engagement cannot be overcome by changing the engagement to a limited assurance engagement. [Moved from paragraph A52]

[ISAE 3000 (Revised) Para. A41; ISAE 3410 A26]

A7. [Deleted]

A8. [Deleted]

A9. [Moved to paragraph A42C and A42D]

A10. [Moved to paragraph A42F]

A11. [Moved to paragraph A6A]

A12. [Moved to paragraph A6C]

A13. [Moved to paragraph A49D]

A14. [Moved to paragraph A49E]

A15. [Deleted]

Suitability of the Roles and Responsibilities (Ref: Para. 2(a), 3)

A16. The three parties for an assurance engagement are:

- (a) Management, those charged with governance or the engaging party, as applicable;
- (b) The practitioner, and
- (c) The intended users.

[ISAE 3000 (Revised) Para. A37]

A17. If the engagement does not have at least three parties, it is unable to satisfy all of the elements of an assurance engagement. The practitioner's responses may include:

- (a) Asking the engaging party to change the terms of engagement to reflect a three-party relationship;
- (b) Conducting the engagement as a consulting engagement; or
- (c) Performing an agreed-upon procedures engagement or declining the engagement.

[ISAE 3000 (Revised) Para. A3]

A18. In evaluating whether management or those charged with governance, as appropriate, have a reasonable basis for the sustainability information, the practitioner may consider whether they have a formal process with robust internal controls to enable the preparation of the sustainability information that is free from material misstatement. The fact that the practitioner will report on the sustainability information is not a substitute for management's own processes to have a reasonable basis for the preparation of the sustainability information. [ISAE 3000 (Revised) Para.A39]

*Reasonable Basis for the Sustainability Information* (Ref: Para.2(a) and 3)

A19. The entity may be at an early stage of developing processes to prepare the sustainability information, and the process for preparing the sustainability information may be at various stages of maturity across different topics or aspects of the topics. Whether the entity's process to prepare the sustainability information within the scope of the assurance engagement is, in the practitioner's professional judgment, able to support the preparation of the sustainability information may depend on the nature, characteristics, extent and complexity of the underlying subject matter and applicable criteria. [EER Para.75-77]

*Appropriate Underlying Subject Matter* (Ref: Para.2((b)(i), 4))

A20. The appropriateness of an underlying subject matter is not affected by the level of assurance, that is, if an underlying subject matter is not appropriate for a reasonable assurance engagement, it is also not appropriate for a limited assurance engagement, and vice versa. [ISAE 3000 (Revised) Para. A41]

A21. In evaluating the appropriateness of the underlying subject matter, and whether sufficient appropriate evidence can be obtained, the practitioner may consider matters such as the characteristics of the aspects of the topics (i.e., the degree to which they are qualitative versus quantitative, factual versus judgmental, historical versus forward-looking, and relate to a point in time or cover a period) and the reporting boundary. For example:

- (a) The underlying subject matter may comprise forward-looking events or conditions that are less likely to be capable of being precisely measured or evaluated than historical events or conditions, and the practitioner may determine that in the circumstances it may not be possible to obtain sufficient appropriate evidence to support the practitioner's conclusion.
- (b) The underlying subject matter may relate to an activity in the value chain that is outside the control of the entity and the practitioner may anticipate that it may not be possible to access the source of information intended to be used as evidence to establish that the information is reliable (e.g., that the controls over its preparation are effective).

[ISAE 3000 (Revised) Para. A42-A43]

*Suitability and Availability of Criteria* (Ref: Para. 2(b)(ii)-(iii) and 5)

Sources of the Criteria (Ref: Para. 5(a))

A22. Criteria may be either:

- (a) Framework criteria, that is:
  - (i) Embodied in law or regulation.
  - (ii) Issued by authorized or recognized bodies of experts that follow a transparent due process.
  - (iii) Developed collectively by a group that does not follow a transparent due process.
  - (iv) Published in scholarly journals or books.
  - (v) Developed for sale on a proprietary basis.
- (b) Entity-developed criteria.

[ISAE 3000 (Revised) Para. A48]

A23. In evaluating the sources of the criteria, the practitioner may consider whether the entity identified and selected criteria from one or more frameworks or developed some or all of the criteria.

[ISAE 3000 (Revised) Para.A48-52]

A24. When criteria are selected from multiple frameworks or entity-developed criteria are to be used, the practitioner's evaluation of the suitability of the criteria may be more extensive and the practitioner may need to consider subjectivity or opportunity for management bias in selecting or developing the criteria.

[EER Para.165]

A25. In some cases, law or regulation prescribes the criteria to be used for the engagement. In the absence of indications to the contrary, such criteria are presumed to be suitable, as are criteria issued by authorized or recognized bodies of experts that follow a transparent due process if they are relevant to the intended users' information needs. Such criteria are referred to as framework criteria in this ISSA. Framework criteria may establish principles and concepts regarding the measurement, evaluation, presentation and disclosure of the underlying subject matter, but may lack specificity because the entity is expected to apply the framework criteria in the circumstances of the entity. Accordingly, even if the criteria are contained in law or regulation or are issued by authorized or recognized bodies of experts that follow a transparent due process, the criteria may not be considered suitable on their own. In such cases, the criteria may need to be supplemented by additional framework or entity-developed criteria that are more specific about how the underlying subject matter is measured or evaluated. In considering whether the criteria are sufficiently specific to be suitable, the practitioner may consider factors such as whether the criteria:

- (a) Are sufficiently prescriptive about the scope of the underlying subject matter to be addressed in the sustainability information.
- (b) Provide appropriate specificity relevant to the entity's industry or jurisdictions in which the entity operates, or other factors pertinent to the sustainability information to be reported.
- (c) Avoid vague descriptions of expectations or judgments.

[ISAE 3000 (Revised) Para. A46 and A49, EER Para. 83]

The Process to Develop Criteria (Ref: Para. 5(a))

A26. The practitioner may consider the process followed by regulators, standard-setters or other parties in developing the framework criteria or the process followed by the entity to identify framework criteria or develop entity-developed criteria. For example, matters the practitioner may consider include the extent to which the process addresses the purpose of the sustainability information, whether the process is transparent, and whether it involves engagement with intended users or their representatives in identifying their information needs for decision-making. [EER Para. 201-204]

A27. The practitioner also may consider the following:

- (a) The entity's process for evaluating the suitability of the criteria, and determining how the criteria will be applied in the entity's circumstances;
- (b) The entity's reason for using the criteria (e.g., the criteria are required to be used or the entity has elected to use the criteria for a particular reason);
- (c) Whether the criteria are appropriately specific regarding how the underlying subject matter should be measured or evaluated.

A28. [Moved to paragraph A42A]

A29. [Moved to paragraph A42B]

Suitability of Criteria (Ref: Para. 2(b)(ii) and 5)

A30. Suitable criteria are required for reasonably consistent measurement or evaluation of underlying subject matter within the context of professional judgment. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding. The suitability of criteria is context-sensitive, that is, it is determined in the context of the engagement circumstances. Even for the same underlying subject matter there may be different criteria that will yield a different outcome.. Suitable criteria exhibit the characteristics in paragraph 6, as follows:

- (a) Relevant criteria result in sustainability information that assists decision-making by the intended users;
- (b) Criteria are complete when sustainability information prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of intended users made on the basis of that sustainability information. Complete criteria include, where relevant, benchmarks for presentation and disclosure;
- (c) Reliable criteria allow reasonably consistent measurement or evaluation of the underlying subject matter, when used in similar circumstances by different practitioners;
- (d) Neutral criteria result in sustainability information that is free from bias as appropriate in the engagement circumstances; and
- (e) Understandable criteria result in sustainability information that can be understood by the intended users.

[ISAE 3000 (Revised) Para. A10]

- A31. The relative importance of each characteristic of the criteria to a particular engagement is a matter of professional judgment. The suitability of criteria is not affected by the level of assurance, that is, if criteria are unsuitable for a reasonable assurance engagement, they are also unsuitable for a limited assurance engagement, and vice versa. [ISAE 3000 (Revised) Para. A45-A47]

Specific Considerations for Determining the Suitability of Criteria for Qualitative Information

- A32. In some circumstances, the practitioner may determine that the criteria for qualitative information are not suitable, for example, not all the characteristics for suitable criteria are exhibited because the criteria lack specificity or criteria for the qualitative information do not exist. In such circumstances, the practitioner may consider:

- (a) Requesting the entity to develop suitable criteria;
- (b) Requesting the entity to remove the information;
- (c) Clearly identifying the information as “other information” that is not within the scope of the assurance engagement, treating that information as “other information” and conducting procedures in accordance with Part 8 paragraph 18-23;
- (d) Whether the information may be misleading, and the impact on acceptance and continuance of the engagement; or
- (e) The impact on the assurance conclusion.

[EER Para. 332-336]

Specific Considerations for Determining the Suitability of Criteria for Processes, Systems and Controls

- A33. In evaluating whether the criteria for processes, systems and controls are suitable the practitioner may consider whether the criteria encompass::

- (a) The fair presentation of the description of the entity’s process, systems or controls, including the control objectives, information about the controls as designed and implemented at the entity to meet those objectives and either the point in time or the period covered
- (b) The suitability of the design of the controls to meet relevant control objectives, In this case, suitable criteria may include the control objectives and criteria to evaluate the risks to achieving the control objectives.
- (c) The operating effectiveness of the controls in achieving the relevant control objectives over the period. In this case, suitable criteria may include the control objectives, criteria to evaluate the risks to achieving the control objectives and whether the controls as designed were consistently applied throughout the specified period.

Specific Considerations for Determining the Suitability of Criteria for Performance

- A34. In determining whether the criteria to evaluate the entity’s performance are suitable, the practitioner may consider:

- (a) The measures or benchmarks used to set the targets, key performance indicators, commitments or other goals against which performance is to be measured;
- (b) The source of the criteria, whether contained in regulation, contractual arrangements, public

commitments or set voluntarily; and

- (c) The methods of measurement or evaluation of the entity's performance.

#### Specific Considerations for Determining the Suitability of Criteria for Forward-looking Sustainability Information

A35. In evaluating whether the criteria to be applied in preparing the entity's forward-looking information are suitable, the practitioner may consider whether the criteria encompass:

- (a) Disclosure criteria for the assumptions made and the nature, sources and extent of uncertainty inherent in those assumptions;
- (b) The measurement or evaluation methods to be used for the forward-looking sustainability information to be prepared on the basis of those assumptions.

[EER Para.370-372]

#### Relevance of the Criteria (Ref: Para. 5(b)(i))

A36. In evaluating whether the criteria are relevant, the practitioner may consider whether the criteria:

- (a) Reflect the information needs of the intended users in terms of the impact the underlying subject matter has on the entity, the impacts the entity has on the underlying subject matter or both.
- (b) Were developed through a process, by the entity or an external party, that focused on identifying or evaluating whether the sustainability information assists decision making by the intended users, including the general types of decisions that intended users are expected to make based on the purpose of the sustainability information.
- (c) Address the inherent level of measurement or evaluation uncertainty in applying the criteria in the circumstances of the engagement, including whether the sustainability information that is subject to high inherent measurement or evaluation uncertainty will be accompanied by disclosures that make the nature and extent of the uncertainty clear.
- (d) Specify the level of disaggregation or aggregation of the information or include principles for determining an appropriate level of aggregation or disaggregation in particular circumstances.
- (e) Are consistent with those generally recognized to be appropriate in the context of the entity's industry or sector or there are justifiable reasons not to use such criteria (e.g., the entity develops more relevant criteria).
- (f) Permit omissions of sustainability information only in circumstances when it is appropriate to do so. For example, the criteria may allow the entity to exclude certain information if:
  - (i) The reporting processes have not yet fully matured and the criteria require the entity to disclose this fact and its reasons therefore.

- (ii) In extremely rare circumstances, the sustainability information is confidential or the adverse consequences of disclosure would reasonably be expected to outweigh the public interest benefits of doing so, such as information that might prejudice an investigation into an actual, or suspected, illegal act.
  - (iii) It enables, when relevant, comparability of the sustainability information between reporting periods.
- (g) Are specific to the topics and aspects of the topics and the characteristics of the aspects of the topics, which will result in information meaningful to users, such as whether the criteria for:
  - (i) Forward-looking information includes the basis for evaluating the reasonableness of the underlying assumptions and methods of preparation based on those assumptions;
  - (ii) Processes, systems or controls includes, for example, control objectives to evaluate the suitability of their design;
  - (iii) Performance includes the targets, key performance indicators, commitments or goals against which performance is measured and methods of measurement or evaluation of that performance; or
  - (iv) Historical information includes methods of measurement or evaluation of the entity's activities.
- (h) Are relevant to the preparation of any other part(s) of the sustainability information not within the scope of the assurance engagement, that may help to identify matters that have not been, but should have been, included within the scope of the assurance engagement.

[EER Para.180-186, 208]

A37. The information needs of the intended users may relate to:

- (a) The impact of the underlying subject matter on the entity;
- (b) The impacts of the entity on the underlying subject matter; or
- (c) Both.

When the information needs of the intended users relate to both, it may be described by the applicable criteria as “double materiality” in the context of identifying topics or aspects of topics to be included in the sustainability information (see paragraph A36).

Completeness of the Criteria (Ref: Para. 5(b)(ii))

A38. In evaluating the completeness of the criteria, the practitioner may consider whether they address:

- (a) Topics or aspects of the topics that could reasonably be expected to affect decisions of intended users, even if those topics or aspects of topics are not as readily measured or evaluated as others;
- (b) The basis for significant judgments in preparing the sustainability information;
- (c) The source of significant inherent uncertainties in applying the criteria;
- (d) The reporting boundary(ies); and

- (e) Entity-developed criteria to interpret or supplement any framework criteria used.

[ISAE 3000 (Revised) Para. A45; EER Para. 187-190]

Reliability of the Criteria (Ref: Para. 5(b)(iii))

A39. In evaluating whether the criteria are reliable, the practitioner may consider:

- (a) Whether the measurement or evaluation of the underlying subject matter can be undertaken with the necessary degree of precision to be relevant in the engagement circumstances;
- (b) Whether the criteria are based on definitions with little or no ambiguity;
- (c) Whether applying the criteria allows for reasonably consistent measurement or evaluation of the underlying subject matter when used in similar circumstances by different parties; and
- (d) The sources of the criteria and the process used to develop them.

[ISAE 3000 (Revised) Para. A45; EER Para. 191-193]

Neutrality of the Criteria (Ref: Para. 5(b)(iv))

A40. In evaluating whether the criteria are neutral the practitioner may consider whether the criteria:

- (a) Require a balanced disclosure of both favorable and unfavorable information;
- (b) Do not result in information that is misleading to the intended users in the interpretation of the sustainability information;
- (c) Are consistent between reporting periods, unless there is a reasonable basis for the change;
- (d) Address how the information is presented and disclosed, to reduce the opportunity for management bias;
- (e) Are entity-developed (e.g., may be subject to management bias).

[ISAE 3000 (Revised) Para.45; EER Para. 194-197]

A41. In circumstances when the criteria are not consistent with previous reporting periods, the practitioner may consider whether:

- (a) The entity has a reasonable basis for the change, for example the entity may be developing and improving its process to prepare the sustainability information and the entity-developed criteria may have been changed to reflect more appropriate or modern approaches, data or methods.
- (b) The basis for the change is sufficiently disclosed and explained in the sustainability information.
- (c) The criteria are different from those commonly used in the entity's industry or sector, as this may be an indicator of management bias.
- (d) The change results in information that is always positive (e.g., management changes the criteria year on year so that the outcome looks more positive).

[EER Para. 211-215]

#### Understandability of the Criteria (Ref: Para. 5(b)(v))

A42. In evaluating whether the criteria are understandable the practitioner may consider whether the criteria:

- (a) Are clear and unambiguous;
- (b) Will enable the intended users to identify readily the main points being made and to infer appropriately whether they affect their decision-making;
- (c) Will result in a presentation that does not obscure relevant information;
- (d) Will result in clear presentation and disclosure of the sustainability information in a way that effectively summarizes and draws attention to key features of the information reported;
- (e) Will result in the sustainability information being coherent, easy to follow, clear and logical;
- (f) Will result in sustainability information that can be readily located, particularly if it is spread across different locations or included by reference;
- (g) Will result in sustainability information that is appropriately balanced between conciseness to be understandable and relevance; and
- (h) Will result in logical and comparable time periods whether those be a point in time (e.g., for description or implementation of a process not covering the period), periods which have ended (e.g., for historical information), or periods which end in the future (e.g., for strategy, targets or commitments).

[EER Para. 198-200]

#### Suitable Criteria for Only Some of the Underlying Subject Matter (Ref: Para.2(b)(iii), 5(c)-5(d))

A42A. If there are specific topics or aspects of the topics for which there are suitable criteria, but not for all of the underlying subject matter, then the practitioner may agree with the appropriate party(ies) to limit the scope of the assurance engagement to those topics or aspects of the topics for which suitable criteria are available. [Moved from paragraph A28] [ISAE 3000 (Revised) Para. A36]

#### Availability of the Criteria to Users (Ref: Para. 2(b)(iii) and 5(d))

A42B. Criteria need to be available to the intended users in writing, with sufficient detail and be sufficiently clear, including the version of the criteria applied, to allow the intended users to understand how the underlying subject matter has been measured or evaluated. The applicable criteria may be made available to the intended users in a number of ways, in a form that cannot be altered, such as:

- (a) Publicly, for example, in published framework criteria or a general-purpose framework that is readily available, such as on a website.
- (b) Through inclusion in the sustainability information, in particular for entity-developed criteria.
- (c) By general understanding, for example, the criterion for measuring time in hours and minutes.

[Moved from paragraph A29] [ISAE 3000 (Revised) Para. A51-A52, EER Para. 216-220]

Ability to Obtain Evidence Needed (Ref: Para. 2(b)(iv))

A42C. In determining whether the evidence needed to support the practitioner's conclusion can be expected to be obtained, the practitioner may consider:

- (a) The nature of the evidence expected to be available given the characteristics of the underlying subject matter and the potential sources of evidence; and
- (b) Other factors including whether evidence that could reasonably be expected to exist is not available due to the engagement circumstances.

[Moved from paragraph A9]

A42D. Examples of the nature and availability of evidence that may impact the practitioner's ability to obtain evidence, include:

- (a) Due to the timing of the practitioner's appointment, the entity's document retention policy, inadequate information systems, or a restriction imposed by the appropriate party(ies).
- (b) The nature of the relationship between the appropriate party(ies) may affect the practitioner's ability to access records, documentation and other information the practitioner may require as evidence to complete the engagement.
- (c) Evidence is likely to be needed from organizations not controlled by the entity, such as organizations outside the control of the entity, but within the value chain. In such cases, the practitioner may determine whether the entity has contractual arrangements with those organizations to provide access to persons or information or to provide independent assurance reports on relevant internal controls or the measurement or evaluation of relevant underlying subject matter, or whether the entity has plans to put such arrangements in place.

[Moved from paragraph A9] [ISAE 3000 (Revised) Para. A53-55]

A42E. In some circumstances, the practitioner may conclude that, due to the nature of the condition and reliability of an entity's records, that it is unlikely that sufficient appropriate evidence will be available to support an unmodified conclusion on the sustainability information. This may occur when the entity has little experience with the preparation of sustainability information. In such circumstances, it may be more appropriate for the sustainability information to be subject to an agreed-upon procedures engagement or a consulting engagement in preparation for an assurance engagement in a later period. [ISAE 3410 Para.A35]

A42FL. The evidence that the practitioner gathers in a limited assurance engagement is more limited than in a reasonable assurance engagement. However, if the practitioner becomes aware in a limited assurance engagement of a matter(s) that causes the practitioner to believe that the subject matter may be materially misstated the practitioner is required to design and perform additional procedures to obtain further evidence as required by Part 7 paragraph 18L. In such circumstances, the evidence that the practitioner may need to be able to obtain on a specific matter may be the same in the limited assurance and reasonable assurance engagement. Therefore, the need for availability and accessibility to evidence is the same regardless of the level of assurance. [Moved from paragraph A10] [ISAE 3000 (Revised) para. 49L]

*Rational Purpose* (Ref: Para.2(b)(vi) and 7)

- A43. The practitioner may draw on the practitioner's understanding of the engagement circumstances gained in determining whether the scope of the engagement is appropriate and the other preconditions are present, in accordance with paragraph 2(a), (b)(i)-(v) and (c), to determine whether the engagement has a rational purpose.
- A44. If the scope of the assurance engagement includes only certain sustainability information (e.g, the entity has excluded certain information from the assurance engagement), the practitioner may consider whether the reasons for the scope of the engagement are appropriate and the proposed engagement has a rational purpose. [EER Para. 95]
- A45. The entity may not have a reasonable basis for all aspects of the sustainability information, such as when the entity's processes to prepare some or all of the sustainability information are at an early stage of development. In such cases, it may be possible to include only those areas of the sustainability information where the processes are more developed within the scope of the assurance engagement, because the preconditions have been met for those areas. The entity may disclose in the sustainability information that for the sustainability information not within the scope of the assurance engagement, they are still developing the processes to prepare the information, and when appropriate, these areas will be included in the scope of the assurance engagement in future periods. [EER Para. 96]
- A46. Other matters the practitioner may consider in evaluating whether the engagement has a rational purpose, include whether:
- (a) A robust process to identify reporting topics in accordance with the applicable criteria has been conducted and, if so, how the information needs of the intended users have been identified and addressed;
  - (b) In circumstances when the engagement is a limited assurance engagement, the level of assurance is meaningful (see paragraphs A47L-A49L);
  - (c) In circumstances when the engagement is a combination of reasonable and limited assurance on different topics, aspects of the topics or disclosures, there is sufficient justification for the different levels of assurance;
  - (d) Management and those charged with governance, if different from the engaging party, have consented to the use of the sustainability information;
  - (e) In circumstance where the criteria were selected or developed by the entity, how the intended users were identified in selecting the criteria;
  - (f) The degree of judgment and scope for bias in applying the criteria;
  - (g) There are any significant limitations on the scope of the practitioner's work; or
  - (h) The engaging party intends to associate the practitioner's name with the underlying subject matter or the sustainability information in an inappropriate manner.

[ISAE 3000 (Revised) Para. A56]

Meaningful Level of Assurance in a Limited Assurance Engagement (Ref: Para. 2(b)(vi) and 7)

A47L. The level of assurance the practitioner plans to obtain is not ordinarily susceptible to quantification. Whether the level of assurance is meaningful is a matter of professional judgment for the practitioner to determine in the circumstances of the engagement. In a limited assurance engagement, the procedures performed vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement, but are, nonetheless, planned to obtain a level of assurance that is meaningful. To be meaningful the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the sustainability information to a degree that is clearly more than inconsequential. [ISAE 3000 (Revised) Para. A4]

A48L. Across the range of all limited assurance engagements, what is meaningful assurance can vary from just above assurance that is likely to enhance the intended users' confidence about the sustainability information to a degree that is clearly more than inconsequential to just below reasonable assurance. What is meaningful in a particular engagement represents a judgment within a range from more than inconsequential but less than reasonable assurance that depends on the engagement circumstances, including the information needs of intended users as a group, the criteria, and the underlying subject matter of the engagement. [ISAE 3000 (Revised) Para. A5]

A49L. Some of the factors that may be relevant in determining what constitutes meaningful assurance in a specific engagement include:

- (a) The characteristics of the underlying subject matter and the criteria.
- (b) Instructions or other indications from the appropriate party(ies) about the nature of the assurance. For example, the terms of the engagement may stipulate particular procedures that the appropriate party(ies) considers necessary or particular aspects the appropriate party(ies) would like the practitioner to focus on within the sustainability information that is within the scope of the assurance engagement. However, the practitioner may consider that other procedures are required to obtain sufficient appropriate evidence to obtain meaningful assurance.
- (c) Generally accepted practice, if it exists, with respect to assurance engagements for sustainability information.
- (d) The information needs of intended users as a group. Generally, the greater the consequence to intended users of receiving an inappropriate conclusion when the sustainability information is materially misstated, the greater the assurance that would be needed in order to be meaningful to them. For example, in some cases, the consequence to intended users of receiving an inappropriate conclusion may be so great that a reasonable assurance engagement is needed for the practitioner to obtain assurance that is meaningful in the circumstances.
- (e) The expectation by intended users that the practitioner will form the limited assurance conclusion on the sustainability information within a short timeframe and at a low cost.

[ISAE 3000 (Revised) Para. A7]

Appropriateness of the Scope of the Sustainability Information Expected to be Reported (Ref: Para. 2(c) and 7A)

A49A. The sustainability information expected to be reported, is the result of the entity applying criteria to determine the topics, aspects of the topics and disclosures to be included in the sustainability information. If the framework criteria do not specify the sustainability information to be reported in sufficient detail, the entity may identify or develop additional criteria to determine the sustainability information to be reported. The process for developing the entity-developed criteria in these circumstances may involve significant management judgment, and could be subject to management bias. [Moved from paragraph A2] [EER Para.125-164]

A49B. In some circumstances, the entity will need to establish a process to identify and select topics, aspects of the topics and disclosures for inclusion in the sustainability information expected to be reported. This may often be referred to as the entity's "process to identify reporting topics", "materiality assessment", or "materiality process", among other terms. However, the concept of materiality in this regard is not the same as the practitioner's determination of materiality. For the purposes of this ISSA, materiality refers only to a threshold of significance to user decision-making considered by the practitioner in relation to potential and identified misstatements, in the circumstances of the engagement. (see Part 5 paragraph 7). [Moved from paragraph A3] [EER Para.125-164]

A49C. If the practitioner becomes aware that there are deficiencies in the entity's process to prepare the sustainability information that is not within the proposed scope of the assurance engagement and is therefore other information, this may indicate that the entity does not have a reasonable basis for reporting this information. In these circumstances, the implications of the requirements in this standard for other information (see Part 8 paragraph 20-22) will have an impact on the practitioner's acceptance of the proposed engagement. [Moved from paragraph A4] [EER Para.97]

Appropriateness of the Scope of the Assurance Engagement (Ref: Para.2(c) and 7B)

A49D. In jurisdictions in which there are no laws or regulations requiring assurance on sustainability information, in particular for sustainability information that is reported voluntarily, there may be legitimate reasons for not including all of the sustainability information reported, within the scope of an assurance engagement. In determining whether the sustainability information within the scope of the engagement is appropriate, the practitioner may consider:

- (a) Whether the sustainability information within the scope of the assurance engagement is likely to meet the information needs of intended users; and
- (b) How the sustainability information will be presented and whether intended users may misinterpret what has, and has not, been subject to the assurance engagement.

[Moved from paragraph A13] [ISAE 3000 (Revised) Para. A44]

A49E. Examples of circumstances when the sustainability information within the scope of the assurance engagement may not be appropriate include:

- (a) Inadequate justification for not including sustainability information expected to be reported within the scope of the engagement.

- (b) The assurance engagement excludes sustainability information that can be readily measured or evaluated and the exclusion of this sustainability information from the assurance engagement may be misleading to intended users.
- (c) The assurance engagement excludes sustainability information that may be significant to intended users' decisions.
- (d) The assurance engagement only includes sustainability information that may be perceived by intended users as positive, and excludes sustainability information that is negative (e.g., areas where the entity has not met targets or has not taken action to achieve goals).
- (e) The reporting boundaries within the scope of the assurance engagement excludes significant entities, operations or facilities which may be misleading to intended users.

[Moved from paragraph A14] [ISAE 3000 (Revised) Para. A44; ISAE 3410 Para.17(a); EER Para. 94]

A50. [Moved to Part 2, paragraph A27]

A51. [Moved to Part 2, paragraph A28]

A52. [Moved to paragraph A6D]

A53. [Moved to Part 5 paragraph A10B]

A54. [Deleted]

## **Terms of the Assurance Engagement**

### *Agreeing the Terms of the Assurance Engagement (Ref: Para.14-15)*

A55. It is in the interests of both the engaging party and the practitioner that the practitioner communicates in writing the agreed terms of the engagement before the commencement of the engagement to help avoid misunderstandings. The form and content of the written agreement or contract will vary with the engagement circumstances. For example, if law or regulation prescribes in sufficient detail the terms of the engagement, the practitioner need not record them in a written agreement, except for the fact that such law or regulation applies and that the appropriate party(ies) acknowledges and understands its responsibilities under such law or regulation.

A55A. Law or regulation, particularly in the public sector, may mandate the appointment of a practitioner and set out specific powers, such as the power to access an appropriate party(ies)'s records and other information, and responsibilities, such as requiring the practitioner to report directly to a minister, the legislature or the public if an appropriate party(ies) attempts to limit the scope of the engagement. [ISAE 3000 (Revised) Para. A57-58]

### *Changing the Terms of the Assurance Engagement (Ref: Para.16-17)*

A56. Examples of when the appropriate party(ies) may request a change to the terms of the assurance engagement and there may not be reasonable justification for doing so include:

- (a) The change is to limited assurance from reasonable assurance because of an inability to obtain sufficient appropriate evidence; or
- (b) The change is to remove sustainability information from the scope of the assurance engagement, to avoid a modification of the assurance conclusion.

- A57. A change in circumstances that affects the intended users' needs, or a misunderstanding concerning the nature of the engagement, may justify a request for a change in the engagement, for example, from an assurance engagement to a non-assurance engagement, or from a reasonable assurance engagement to a limited assurance engagement. [ISAE 3000 (Revised) Para. A59]

## Part 4: Evidence and Documentation

### Designing and Performing Procedures to Obtain Sufficient Appropriate Evidence (Ref: Para. 1)

- A1. Evidence is necessary to support the practitioner's conclusion and assurance report. It is cumulative in nature and is primarily obtained from procedures performed during the course of the engagement. It may, however, also include information obtained from other sources, such as previous engagements (provided the practitioner has determined whether changes have occurred since the previous engagement that may affect the relevance of the information to the current engagement) or a firm's quality policies or procedures for acceptance and continuance of client relationships and assurance engagements. Evidence comprises both information that supports and corroborates disclosures in the sustainability information, and any information that contradicts disclosures in the sustainability information. [ISAE 3000 (Revised) Para. A147]
- A2. The practitioner obtains evidence by designing and performing procedures, including risk procedures, further procedures, and other procedures to comply with this ISSA. The nature of a procedure refers to its purpose and its type. Types of procedures include inquiries, inspection, observation, confirmation, recalculation, reperformance and analytical procedures. [ED-500<sup>14</sup> Para. A15 and the Appendix]

### *Designing and Performing Procedures in a Manner that is not Biased* (Ref: Para. 1(a))

- A3. Unconscious or conscious biases may affect the engagement team's professional judgments in designing and performing procedures, which may impede the exercise of professional skepticism. An awareness of such biases when designing and performing procedures may help to mitigate impediments to the practitioner's exercise of professional skepticism in critically assessing evidence and determining whether sufficient appropriate evidence has been obtained. Such awareness may also enable the practitioner to design and perform procedures that seek to avoid:
- (a) Corroborating the practitioner's expectations about disclosures where material misstatements are likely to arise (in a limited assurance engagement) or risks of material misstatement (in a reasonable assurance engagement), or excluding evidence that may contradict such expectations or risks.
  - (b) Placing more weight on evidence that corroborates disclosures than evidence that contradicts or casts doubt on such disclosures (confirmation bias).
  - (c) Using an initial piece of information or evidence as an anchor against which subsequent information or evidence is assessed (anchoring bias).
  - (d) Placing more weight on information that immediately comes to mind or uses information from sources that are more readily available or accessible (availability bias).

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<sup>14</sup> ED-500, Proposed International Standard on Auditing 500 (Revised), *Audit Evidence*

- (e) Placing weight or undue reliance on output from automated systems or information in digital format, or assuming it is relevant and reliable, without performing appropriate procedures (automation bias).

[ED-500 Para. A19-A20]

A4R. In a reasonable assurance engagement, obtaining evidence in an unbiased manner may involve obtaining information from multiple sources (see also paragraphs A28-A30).

*Procedures that are Appropriate in the Circumstances* (Ref: Para. 1(b))

- A5. Procedures are appropriate in the circumstances when the nature, timing and extent of such procedures are designed, performed and executed in a manner that achieves the intended purpose of the procedures. The purpose of performing a procedure may be related to risk procedures, further procedures or another procedure to comply with this ISSA. For example, the purpose may be to obtain evidence about whether an event affecting the sustainability information has occurred or whether the sustainability information is complete. [ED-500 Para. A25]
- A6. In designing and performing procedures that are appropriate in the circumstances to provide evidence, the practitioner's considerations may include whether information intended to be used as evidence:
  - (a) Is expected to be available in digital, written or oral form, related to a point in time or for a period, and is to be obtained from internal or external sources.
  - (b) Is needed across multiple disclosures and how that affects the nature, timing and extent of evidence needed. For example, the nature and availability of appropriate evidence may vary based on whether the disclosures relate to an entity's processes, governance, controls or key performance indicators, and the characteristics of the disclosures, such as whether they are quantitative, qualitative, historical or forward-looking (see also paragraphs A14-A18).
  - (c) Relates to disclosures that include information from the entity's value chain, and how that may affect the ability to obtain sufficient appropriate evidence.
  - (d) Will need to be obtained across multiple locations. [ISAE 3410 Para.31]
  - (e) Relates to disclosures that are factual, judgmental or subject to estimation uncertainty.

[EER Para. 273-274]

- A7. In designing and performing procedures, the appropriateness of an approach or technique in selecting items for testing depends on several factors, such as:
  - (a) The intended purpose of the procedure;
  - (b) How the procedure is designed;
  - (c) Whether the practitioner is performing the procedure manually or using automated tools and techniques;
  - (d) The matters described in paragraph A6 relating to information intended to be used as evidence; and
  - (e) The persuasiveness of evidence that is needed in the circumstances. [ED-500 Para. A28]

## Sufficiency and Appropriateness of Evidence

- A8. The practitioner is required to obtain sufficient appropriate evidence to provide a basis for the assurance conclusion. The sufficiency and appropriateness of evidence are interrelated and together affect the persuasiveness of evidence. In both limited and reasonable assurance engagements the collective persuasiveness of the evidence obtained establishes the level of assurance obtained. The practitioner aims to obtain evidence that is collectively persuasive to respond to risk considerations. Ordinarily, evidence will be persuasive rather than conclusive. [ED-500 Para. A6 and EER Para. 269-270]
- A9. Sufficiency is the measure of the quantity of evidence. The quantity of evidence needed is affected by the risks of the sustainability information being materially misstated (the more likely, or higher, the risks, the more evidence is likely to be required) and also by the quality of such evidence (the higher the quality, the less may be required). Obtaining more evidence, however, may not compensate for its poor quality. [ISAE 3000 (Revised) Para. A148]
- A10. The appropriateness of evidence refers to its quality. The quality of evidence depends on the relevance and reliability of the information intended to be used as evidence as well as the effectiveness of the design of the assurance procedures and the practitioner's application of those procedures. Information that is more relevant and reliable ordinarily is of a higher quality and, therefore, may provide more persuasive evidence. If the evidence is more persuasive, the practitioner may determine that the evidence is sufficient in providing support for the conclusions that form the basis for the practitioner's assurance conclusion. Alternatively, when evidence is less persuasive, the practitioner may determine that additional evidence is needed to provide support for the practitioner's conclusions. However, increasing the quantity of evidence by performing the same type of procedures may not provide more persuasive evidence in all circumstances. [ED-500 Para. A13]
- A11. The practitioner uses professional judgment and exercises professional skepticism in evaluating the sufficiency and appropriateness of evidence to support the assurance conclusion. [EER Para. 276]
- A12. Factors that affect the evidence that may be available in the circumstances, in terms of quantity or quality, and therefore impact its sufficiency or appropriateness, include the following:
- (a) The characteristics of the underlying subject matter or disclosures. For example, less objective evidence might be expected when the disclosures are forward-looking rather than historical.
  - (b) Other circumstances, such as when evidence that could reasonably be expected to exist is not available because of, for example, the timing of the practitioner's appointment, an entity's document retention policy, inadequate information systems, or a restriction imposed by management.
- [ISAE 3000 (Revised) Para. A53]
- A13. The procedures designed and performed by the practitioner may also affect the persuasiveness of the evidence obtained. For example, in a reasonable assurance engagement, inspection of an entity's processes and related controls that support the preparation of the sustainability information, or external confirmation procedures to obtain evidence over information used by management in preparing the sustainability information, may provide more persuasive evidence than inquiry of management. In a reasonable assurance engagement, inquiry alone ordinarily does not provide sufficient appropriate evidence. [ED-500 Para. A24]

### *Qualitative Information*

- A14. Some qualitative disclosures may be factual and directly observable or otherwise able to be subject to evidence-gathering procedures. However, some qualitative disclosures may be inherently judgmental, not directly observable and may be susceptible to management bias. The practitioner may need to exercise significant professional judgment in evaluating what constitutes sufficient appropriate evidence in these circumstances. [EER Para. 331]
- A15. Although the processes and control activities within the entity's information system may be sufficient to provide the preparer with a reasonable basis for the sustainability information, they may not be sufficient to provide the practitioner with the evidence needed to support the practitioner's assurance conclusion. This may have implications for the practitioner's planned procedures, their ability to obtain the evidence needed about the qualitative sustainability information, and the assurance conclusion. For example, when designing and performing procedures for qualitative sustainability information, the practitioner may consider:
- (a) Whether, in the case of a reasonable assurance engagement, substantive testing alone will provide sufficient appropriate evidence regarding the occurrence, completeness or neutrality of the sustainability information. If not, the practitioner may need to perform tests of controls over the integrity of data, or other control activities within the entity's information system that support the preparation of the qualitative information.
  - (b) The source of the information intended to be used as evidence, how such information has been captured and processed by the entity's information system, and how this may affect the reliability of the information. For example, information may be captured directly into the entity's information system on a real-time basis without supporting documentation or may be obtained through informal communication.

[EER Para. 327 and 337]

### *Forward-looking Information*

- A16. Forward-looking information, by its nature, is predictive and may be expressed in both quantitative and qualitative terms. Disclosures about future conditions or outcomes relates to events and actions that have not yet occurred and may not occur, or that have occurred but are still evolving in unpredictable ways. While forward-looking information may result from applying criteria to the underlying subject matter, the underlying subject matter (a future event, occurrence or action) may be subject to greater uncertainty, and ordinarily able to be evaluated with less precision than historical underlying subject matter(s). Uncertainty and the need for judgment are also likely to increase the further into the future the period to which the disclosures relate. Unlike historical information, it is not possible for the practitioner to determine whether the results or outcomes forecasted or projected have been or will be achieved or realized. In seeking evidence, the practitioner may obtain evidence about whether the forward-looking information has been prepared in accordance with the applicable criteria on the basis of the assumptions used by the entity, and:
- (a) In the case of forecasts, there is a reasonable basis for the assumptions used in preparing the sustainability information; or
  - (b) In the case of hypothetical assumptions, such assumptions are consistent with the purpose of the information. [EER Para. 379]

- A17. Evidence may be available to support the assumptions on which the forward-looking sustainability information is based, but such evidence itself may also be forward-looking and, therefore, speculative in nature. Accordingly, the practitioner may need to exercise professional judgment in determining the persuasiveness of the evidence. In some circumstances, the evidence available may support a range of possible outcomes with the disclosure falling within that range. The practitioner's evaluation of whether the disclosure is reasonable based on the evidence obtained is further addressed in Part 8 paragraphs 1 and A1-A7. [EER Paras. 364-65]
- A18. The nature and availability of evidence for forward-looking information, and what constitutes sufficient appropriate evidence, will likely vary by topics, aspects of topics and disclosures, and the practitioner's consideration of potential material misstatements. For example:
- (a) When disclosures relate to future strategy, a target, or other intentions of an entity the practitioner may focus evidence gathering activities on whether management or those charged with governance have an intention to follow that strategy, the target or intention exists, or there is a reasonable basis for the intended strategy or target (e.g., the practitioner may obtain evidence to support that the entity has the ability to carry out its intent, or is building the means to do so by considering the processes, systems and controls over the development of the assumptions, and the source data on which they are based). [EER Para. 374]
  - (b) When disclosures relate to future risks and opportunities, the practitioner may focus evidence gathering activities on information available from the entity's risk register or records of discussions of those charged with governance if the entity's processes and controls in place over the maintenance of the risk register and the minuting of discussions provide a reasonable basis for using these sources as evidence. In a reasonable assurance engagement, the practitioner may need to consider obtaining evidence over the effectiveness of internal controls. [EER Para. 377]

**Information Intended to be Used as Evidence (Ref: Para. 2)**

- A19. In planning and performing a sustainability assurance engagement, the practitioner may obtain information from a variety of sources and in different forms. Such information ordinarily is expected to result in evidence to support the conclusions that form the basis for the practitioner's assurance conclusion and report. However, such information can become evidence only after procedures are applied to it, including evaluating its relevance and reliability. For purposes of this ISSA, this information is referred to as "information intended to be used as evidence." [ED-500 Para. A34]
- A20. Evaluating the relevance and reliability of information intended to be used as evidence involves performing procedures. Factors that may influence the nature, timing and extent of such procedures, include:
- (a) The source of the information; and
  - (b) The attributes of relevance and reliability of the information that are considered applicable in the circumstances.

[ED-500 Para. A36]

- A21. In some circumstances, the procedures to evaluate relevance and reliability may be straightforward (e.g., comparing information used by management to published information from a national government body). In other circumstances, procedures, including tests of controls, may be performed to evaluate the reliability of information (e.g., the accuracy and completeness of information generated internally from the entity's information system). [ED-500 Para. A37]
- A22. Evidence from performing other procedures in accordance with this ISSA also may assist the practitioner in evaluating the relevance and reliability of information intended to be used as evidence. For example, evidence obtained from:
- (a) The practitioner's understanding of the entity and its environment, the applicable criteria and the entity's system of internal control.
  - (b) Tests of controls over the preparation and maintenance of the information.
  - (c) Procedures performed when using the work of a practitioner's expert. [ED-500 Para. A38]

*Form, Availability, Accessibility and Understandability of Information*

- A23. The form, availability, accessibility and understandability of the information intended to be used as evidence may affect:

- (a) The design and performance of the procedures in which the information will be used; and
- (b) In the practitioner's evaluation of the relevance and reliability of the information.

For example, information may only be available in digital form on a continuous basis. In such circumstances, the practitioner may use automated tools and techniques that are designed to operate on a real-time basis to evaluate the relevance and reliability of the information. [ED-500 Para. A42]

- A24. The practitioner may receive information intended to be used as evidence in many forms, ranging from information generated from highly complex automated systems to information manually prepared by management and others within the entity. The practitioner may have an expectation of the form in which information intended to be used as evidence will be received. Remaining alert for information intended to be used as evidence that is received in a form different from the expected form may assist the practitioner in mitigating unconscious biases that may impede the practitioner's exercise of professional skepticism. In addition, receiving information in a form different from that expected may also be relevant to the practitioner's evaluation of the reliability of that information. [ED-500 Para. A44]

- A25. Information intended to be used as evidence may exist, but access to such information may be restricted, for example, due to restrictions imposed by law or regulation or the source providing the information, or due to war, civil unrest or outbreaks of disease. In some cases, the practitioner may be able to overcome restrictions on access to information. For example, the practitioner may request management or those charged with governance of the entity to assist in requesting information from a source when contractual obligations exist between an information source and the entity, or the practitioner may choose to visit a location to inspect information that is available but cannot be transferred outside of a jurisdiction. [ED-500 Para. A45]

- A26. The practitioner may be unable to obtain sufficient appropriate evidence if the practitioner determines that it is not practicable to obtain or understand information intended to be used as evidence. For example, if the practitioner does not have a sufficient basis to evaluate the relevance and reliability

of information from a source external to the entity, the practitioner may have a limitation on scope if sufficient appropriate evidence cannot be obtained through alternative procedures. The practitioner's inability to obtain sufficient appropriate evidence requires the practitioner to express a qualified conclusion or disclaim a conclusion on the sustainability information in accordance with Part 9 of this ISSA. [ED-500 Para. A46]

- A27 In some circumstances, specialized skills or knowledge may be needed to understand or interpret the information intended to be used as evidence, for example, emissions data. Accordingly, the practitioner may consider using a practitioner's expert to assist in understanding or interpreting the information intended to be used as evidence if the engagement team does not have the appropriate competence and capabilities to do so. [ED-500 Para. A47]

[Placeholder for any examples deemed necessary]

#### *Sources of Information*

- A28. Information intended to be used as evidence may come from internal sources or external sources and may affect the availability, accessibility and understandability of the information intended to be used as evidence. For example, information may come from:

- (a) The entity's records, management or other sources internal to the entity.
- (b) A management's expert.
- (c) A practitioner's expert.
- (d) Independent sources external to the entity, other than a management's or practitioner's expert, that provide information, such as the entity's bank, legal counsel, customers, suppliers, or general data providers (e.g., entities providing macro-economic, industry or social data).
- (e) A service organization

[ED-500 Para. A48]

- A29. The practitioner is not required to perform an exhaustive search to identify all possible sources of information to be used as evidence. The practitioner's understanding of the entity and its environment, the applicable criteria and the entity's system of internal control may assist the practitioner in identifying appropriate sources of information. [ED-500 Para. A51]

- A30. The practitioner ordinarily obtains more assurance from consistent evidence obtained from different sources or of a different nature than from items of evidence considered individually. In addition, obtaining information intended to be used as evidence from different sources or of a different nature may indicate that an individual item of information intended to be used as evidence is not reliable. [ISAE 3000 (Revised) Para. A150]

#### *Attributes of Relevance and Reliability of Information*

- A31. The quality of evidence depends on the relevance and reliability of the information upon which it is based. Whether, and the degree to which, certain attributes of relevant and reliable information are considered applicable in the circumstances is a matter of professional judgment. [ED-500 Para. A53]

### *Relevance*

A32. The principal attribute of the relevance of information intended to be used as evidence deals with the logical connection with, or bearing upon, the purpose of the procedure, including, in a reasonable assurance engagement, the assertion being tested. The degree to which the information relates to meeting the purpose of the procedure may also be a consideration. [ED-500 Para. A54]

### *Reliability*

A33. The reliability of information intended to be used as evidence deals with the degree to which the practitioner may depend on such information. Common attributes that may be applicable when considering the degree to which information intended to be used as evidence is reliable may include whether the information is:

- (a) Accurate (free from error).
- (b) Complete (reflecting all applicable events, conditions and circumstances).
- (c) Authentic (genuine, authorized and not inappropriately altered).
- (d) Free from bias (whether intentional or unintentional).
- (e) Credible (generated by a competent, capable and trustworthy source).

[ED-500 Para. A56]

### *Factors That Affect the Practitioner's Professional Judgment Regarding the Attributes of Relevance and Reliability*

A34. Factors that may affect the practitioner's professional judgment about the relevance and reliability of information intended to be used as evidence, including which attributes of reliability may be applicable in the circumstances, include:

- (a) The disclosures and, for reasonable assurance engagements, the assertions, for which the information will be used as evidence. Information may be relevant to multiple disclosures. Some information may be relevant for certain assertions but not others.
- (b) The period of time to which the information relates.
- (c) The controls over the preparation and maintenance of the information.
- (d) The practitioner's assessment of disclosures where material misstatements are likely to arise (in a limited assurance engagement) or the assessed risks of material misstatement (in a reasonable assurance engagement).
- (e) The intended purpose of the procedure in which the information will be used.

[ED-500 Para.A59]

- (f) The level of detail of the information needed given the intended purpose of the procedure. For example, information related to key performance indicators used by management may not be precise enough to detect material misstatements at the assertion level and therefore may not, in a reasonable assurance engagement, be appropriate for use by the practitioner in performing further procedures.

- (g) The level of precision within the applicable criteria regarding what is to be reported and how it is to be measured or evaluated. For example, when the applicable criteria require more granular quantitative disclosures, the practitioner may consider the attributes of accuracy and completeness to be important.
- (h) The source of the information. For example, accuracy and completeness ordinarily will be applicable attributes for information generated internally from the entity's information system (such as when performing further procedures). For information obtained from a source external to the entity, the practitioner may be more focused on other attributes of reliability, including the credibility of the source providing the information.
- (i) The ability of the reporting entity to influence information obtained from external sources with whom they have relationships.
- (j) Evidence of general market acceptance by users of the relevance and reliability of information from an external source.

[ED-500 Para. A55, A59, A60 and A63; EER Para. 277]

- A35. The reliability of information, in particular the attributes of accuracy, completeness and authenticity, when deemed to be applicable in the circumstances, may also be affected by whether the integrity of the information has been maintained through all stages of processing through the entity's information systems. For example, an entity's information system may include general information technology controls to safeguard and maintain the integrity of the sustainability information. In a reasonable assurance engagement, the practitioner may determine, based on the practitioner's understanding and evaluation of the entity's information system and control activities, that the integrity of the sustainability information has been maintained through all stages of information processing, including when information is extracted for reporting purposes. [ED-500 Para. A58]
- A36. The source of the information intended to be used as evidence may affect the nature and extent of the practitioner's evaluation of the relevance and reliability of the information. It may also affect how the practitioner responds to matters such as doubts about the reliability of the information, or inconsistencies in evidence. For example:
- (a) If the information comes from a highly reputable external source, such as an authorized jurisdictional environmental agency, the practitioner's work effort in considering the reliability of the information may not be extensive.
  - (b) If the information is provided by management, such as information generated internally from the entity's information system, the practitioner may need to consider obtaining evidence about the accuracy and completeness of the information.

[ED-500 Para. A50]

*Work Performed by a Management's Expert (Ref: Para. 3)*

- A37. When evaluating the relevance and reliability of information intended to be used as evidence prepared by a management's expert:
- (a) The competence and capabilities of that expert may inform the practitioner's consideration of the attribute of credibility. The credibility of the source providing the information affects the degree to which information intended to be used as evidence is reliable.

- (b) The objectivity of that expert may inform the practitioner's consideration of the attribute of bias. A broad range of circumstances may influence the professional judgments of the management's expert, which may threaten the management expert's objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats and intimidation threats. Bias in the information intended to be used as evidence also affects the degree to which information is reliable. In some cases, information prepared by a management's expert may be subject to bias, as management may have an influence on the professional judgments of the management's expert.

[ED-500 Para. A69 and A72]

*Competence and Capabilities* (Ref: Para. 3(a))

A38. Competence relates to the nature and level of expertise of the management's expert. Factors that may affect whether the management's expert has the appropriate competence include:

- (a) Whether the expert's work is subject to technical performance standards or other professional or industry requirements, for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation.
- (b) The matter for which the management expert's work will be used, and whether they have the appropriate level of expertise applicable to the matter, including expertise in a particular area of specialty.
- (c) The management's expert's competence with respect to relevant underlying subject matter, for example, knowledge of assumptions and methods, including models when applicable, that are consistent with the applicable criteria.

[ED-500 Para. A70]

A39. Capabilities relates to the ability of the management's expert to exercise the competence in the circumstances. Factors that may influence capabilities may include geographic location, and the availability of time and resources. [ED-500 Para. A71]

*Obtain an Understanding of the Work Performed by the Management's Expert* (Ref: Para. 3(b))

A40. Matters relevant to the practitioner's understanding of the work performed by the management's expert may include:

- (a) The relevant field of expertise;
- (b) The nature, scope and objectives of the management's expert's work;
- (c) Whether there are professional or other standards, and regulatory or legal requirements that apply in preparing the information;
- (d) How the information has been prepared by the management's expert, including:
  - (i) The assumptions and methods used by the management's expert, and whether they are generally accepted within that expert's field and appropriate in the context of the applicable criteria and the underlying subject matter; and
  - (ii) The underlying information used by the management's expert; and

- (e) The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other evidence.

[ED-500 Para. A74]

*Obtain an Understanding of How the Information Prepared by the Management's Expert Has Been Used by Management in the Preparation of the Sustainability Information* (Ref: Para. 3(c))

A41. Obtaining an understanding about how the information prepared by a management's expert has been used by management in the preparation of the sustainability information may include understanding:

- (a) How management has considered the appropriateness of the information prepared by the management's expert; and
- (b) The modifications made by management to the information prepared by the management's expert.

This understanding may assist the practitioner in:

- (a) Evaluating the relevance and reliability of the information intended to be used as evidence; and
- (b) Understanding whether the expert's findings or conclusions have been appropriately reflected in the sustainability information. For example, in some circumstances, management may need to modify the information prepared by the management's expert, such as when the information provided is too general and requires adjustment to reflect the circumstances unique to the entity. Management's adjustments may give rise to bias, or management may not have the appropriate competence and capabilities to adapt or adjust the information, which may cause the information to be inaccurate, incomplete or lack credibility.

[ED-500 Para. A77]

*Doubts About the Relevance and Reliability of Information Intended to be Used as Evidence*

(Ref: Para. 4-5)

A42. Unless the practitioner has reason to believe the contrary, the practitioner may accept records and documents as genuine. When the practitioner identifies conditions that give cause to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the practitioner, possible procedures to investigate further may include:

- (a) Confirming directly with the third party.
- (b) Using the work of an expert to assess the document's authenticity.

[ISA 240<sup>15</sup> Para. A10]

A43. Factors or circumstances that may give rise to doubts about the reliability of information intended to be used as evidence include:

- (a) An inability to evaluate the relevance and reliability of the information, including, for example, whether the information is authentic.
- (b) Misstatements identified during the assurance engagement.

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<sup>15</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

- (c) Deficiencies in internal control identified by the practitioner, particularly when there is a significant deficiency in internal control.
- (d) When procedures performed on a population result in a higher rate of deviation than expected.
- (e) When information intended to be used as evidence is inconsistent with other information or evidence.

[ED-500 Para. A80]

A44. The relevance of information intended to be used as evidence may be affected by the period of time to which the information relates. For example, the relevance of such information may change based on the passage of time or due to events or conditions, such as the identification of new information. Such circumstances may occur when the practitioner identifies information from an alternative or more credible source which negates, or causes doubt about, the relevance of the initial information intended to be used as evidence. [ED-500 Para. A79]

A45. In cases of doubt about the reliability of information or indications of possible fraud, this ISSA requires the practitioner to investigate further and determine what modifications or additions to procedures are necessary to resolve the matter. Doubts about the reliability of information from management may indicate a risk of fraud. [ED-500 Para. A82–A83]

A46. [Moved to Part 8 Para. A44]

A47. [Moved to Part 8 Para. A45]

A48. [Moved to Part 8 Para. A46]

A49. [Deleted]

A50. [Moved to Part 8 Para. A47]

A51. [Moved to Part 8 Para. A48]

A52. [Moved to Part 8 Para. A49L and A50R]

## Documentation

*Form, Content and Extent of Assurance Engagement Documentation* (Ref: Para. 8-10)

A53. A practitioner experienced in sustainability assurance refers to an individual (whether internal or external to the firm) who has practical experience in sustainability assurance, and a reasonable understanding of:

- (a) Assurance processes;
- (b) ISSAs and applicable legal and regulatory requirements;
- (c) The business environment in which the entity operates; and
- (d) Assurance and sustainability reporting matters relevant to the entity's industry.

[ISA 230 Para. 6(c)]

A54. Preparing sufficient and appropriate assurance engagement documentation on a timely basis helps to enhance the quality of the assurance engagement and facilitates the effective review and evaluation of the evidence obtained and conclusions reached before the practitioner's report is finalized. Documentation prepared after the assurance engagement work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.

[ISA 230 Para. A1]

A55. The form, content and extent of assurance engagement documentation depend on factors such as:

- (a) The size and complexity of the entity.
- (b) The scope of the assurance engagement and nature of the procedures to be performed. For example, the extent of documentation would ordinarily be less:
  - (i) For a limited assurance engagement compared to a reasonable assurance engagement.
  - (ii) When the assurance engagement addresses only certain aspects of the sustainability information, rather than all of the sustainability information that comprises multiple disclosures.
- (c) The extent of disclosures where material misstatements are likely to arise (in a limited assurance engagement) or the identified and assessed risks of material misstatement (in a reasonable assurance engagement).
- (d) The significance of the evidence obtained.
- (e) The nature and extent of exceptions identified.
- (f) The need to document a conclusion or the basis for a conclusion not self-evident from the documentation of the work performed or evidence obtained.
- (g) The assurance methodology and tools used.

[ISA 230 Para. A2]

A56. Judging the significance of a matter requires an objective analysis of the facts and circumstances. Examples of significant matters include:

- (a) Matters that give rise to higher assessed risks (in a reasonable assurance engagement).
- (b) Results of procedures indicating that the sustainability information could be materially misstated or, in a reasonable assurance engagement, a need to revise the practitioner's previous assessment of the risks of material misstatement and the practitioner's responses to those risks.
- (c) Circumstances that cause the practitioner significant difficulty in applying necessary procedures.
- (d) Findings that could result in a modification to the assurance conclusion or the inclusion of an Emphasis of Matter paragraph in the Assurance report.

[ISA 230 Para. A8]

- A57. An important factor in determining the form, content and extent of assurance engagement documentation of significant matters is the extent of professional judgment exercised in performing the work and evaluating the results. Documentation of the professional judgments made, when significant, serves to explain the practitioner's conclusions and to reinforce the quality of the judgment. [ISA 230 Para. A9]
- A58. Examples of circumstances in which, in accordance with paragraph 8, it is appropriate to prepare assurance engagement documentation relating to the use of professional judgment include matters and judgments that are significant to:
- (a) The rationale for the practitioner's conclusion when a requirement provides that the practitioner "shall consider" certain information or factors, and that consideration is significant in the context of the particular engagement.
  - (b) The basis for the practitioner's conclusion on the reasonableness of areas of judgments (for example, the reasonableness of significant estimates).
  - (c) The basis for the practitioner's conclusions about the authenticity of a document when further investigation is undertaken in response to conditions identified during the assurance engagement that caused the practitioner to believe that the document may not be authentic.
- [ISA 230 Para. A10]
- A59. It is neither necessary nor practical to document every matter considered, or professional judgment made, during an engagement. Further, it is unnecessary for the practitioner to document separately (e.g., through a checklist) compliance with matters for which compliance is demonstrated by documents included within the assurance engagement file. [ISAE 3000 (Revised) Para. A201]
- A60. The requirement to document who reviewed the work performed does not imply a need for each specific working paper to include evidence of review. The requirement, however, means documenting what work was reviewed, who reviewed such work, and when it was reviewed. [ISA 230 Para. A13]
- A61. Documentation is not limited to records prepared by the practitioner but may include other appropriate records such as minutes of meetings prepared by the entity's personnel and agreed by the practitioner. Others with whom the practitioner may discuss significant matters may include other personnel within the entity, and external parties, such as persons providing professional advice to the entity. [ISA 230 Para. A14]
- A62. The requirement to document how the practitioner addressed inconsistencies in information does not imply that the practitioner needs to retain documentation that is incorrect or superseded. [ISA 230 Para. A15]

*Departure from a Relevant Requirement (Ref: Para. 11)*

- A63. The requirements of this ISSA are designed to enable the practitioner to achieve the objectives specified in this ISSA, and thereby the overall objectives of the practitioner. Accordingly, other than in exceptional circumstances, this ISSA calls for compliance with each requirement that is relevant in the circumstances of the assurance engagement. [ISA 230 Para. A18]

- A64. The documentation requirement applies only to requirements that are relevant in the circumstances. A requirement is not relevant only in the cases when the requirement is conditional and the condition does not exist (for example, the requirement to modify the practitioner's conclusion when there is an inability to obtain sufficient appropriate evidence, and there is no such inability). [ISA 230 Para. A19]

*Matters Arising After the Date of the Practitioner's Report* (Ref: Para. 12)

- A65. Examples of exceptional circumstances include facts that become known to the practitioner after the date of the assurance report but which existed at that date and which, if known at that date, might have caused the sustainability information to be amended or the practitioner to modify the conclusion in the assurance report, for example, the discovery of a significant uncorrected error. The resulting changes to the assurance engagement documentation are reviewed in accordance with the firm's policies or procedures with respect to the nature, timing and extent of the review of engagement team members' work as required by ISQM 1, with the engagement leader taking final responsibility for the changes. [ISAE 3410 Para. A128]

*Assembly of the Final Engagement File* (Ref: Para. 13)

- A66. ISQM 1 (or other professional requirements, or requirements in law or regulation that are at least as demanding as ISQM 1) requires firms to establish a quality objective that addresses the assembly of engagement documentation on a timely basis after the date of the engagement report. An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the assurance report. [ISAE 3000 (Revised) Para. A205]
- A67. The completion of the assembly of the final engagement file after the date of the assurance report is an administrative process that does not involve the performance of new procedures or the drawing of new conclusions. Changes may, however, be made to the documentation during the final assembly process if they are administrative in nature. Examples of such changes include:
- (a) Deleting or discarding superseded documentation.
  - (b) Sorting, collating and cross-referencing working papers.
  - (c) Signing off on completion checklists relating to the file assembly process.
  - (d) Documenting evidence that the practitioner has obtained, discussed and agreed with the relevant members of the engagement team before the date of the assurance report.

[ISAE 3000 (Revised) Para. A206]

- A68. ISQM 1 (or national requirements that are at least as demanding as ISQM 1) requires firms to establish a quality objective that addresses the maintenance and retention of engagement documentation to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards. The retention period for assurance engagements ordinarily is no shorter than five years from the date of the assurance report. [ISAE 3000 (Revised) Para. A207]

## **Part 5: Planning**

### **Planning Activities** (Ref. Para. 3-4A)

- A1. [Deleted]

A2. Adequate planning helps to:

- (a) Devote appropriate attention to important areas of the engagement;
- (b) Identify potential problems on a timely basis and properly organize and manage the engagement in order for it to be performed in an effective and efficient manner;
- (c) Properly assign work to engagement team members, and facilitate the direction and supervision of engagement team members and the review of their work; and
- (d) Assist, when applicable, the coordination of work done by other practitioners and experts.

[ISAE 3000 (Revised) Para. A86]

A3. Planning involves the engagement leader, other key members of the engagement team, and any key practitioner's external experts developing:

- (a) An overall strategy for the scope, timing and direction of the assurance engagement; and
- (b) An engagement plan, consisting of a detailed approach for the nature, timing and extent of procedures to be performed, and the reasons for selecting them.

[ISAE 3000 (Revised) Para. A86]

A3A. Information obtained in the acceptance and continuance process may assist the engagement leader in planning and performing the engagement. Such information may include:

- Information about the size, complexity and nature of the entity, including the industry in which it operates and the applicable criteria;
- The entity's timetable for reporting, such as at interim and final stages;
- If the assurance engagement relates to consolidated sustainability information, the nature and extent of the control relationships between the parent and its entities and business units and others within the reporting boundary; and
- Whether there have been changes in the entity or in the industry in which the entity operates since the previous assurance engagement that may affect the nature of resources required, as well as the manner in which the work of the engagement team will be directed, supervised and reviewed.

[ISA 220<sup>16</sup>, para. A53]

A4. The nature and extent of planning activities will vary with the engagement circumstances, for example, the complexity of the underlying subject matter and applicable criteria. Examples of matters that may be considered include:

- (a) The characteristics of the entity and its activities;
- (b) Whether the engagement is a limited assurance engagement, reasonable assurance engagement or a combination of both.
- (c) The disclosures comprising the sustainability information.

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<sup>16</sup> ISA 220, *Quality Management for An Audit of Financial Statements*

- (d) The expected timing and the nature of the communications required.
- (e) The results of engagement acceptance activities and, when applicable, whether knowledge gained on other engagements performed by the engagement team for the entity is relevant.
- (f) The reporting boundary.
- (g) The practitioner's understanding of the entity and its environment, including the risks that the disclosures may be materially misstated.
- (h) The intended users and their information needs.
- (i) The extent to which the risk of fraud is relevant to the engagement.
- (j) The nature, timing and extent of resources necessary to perform the engagement, such as expertise required, including the nature and extent of experts' involvement.
- (k) If the entity has an internal audit function, the impact on the engagement.

[ISAE 3000 (Revised) Para. A86]

- A5. The practitioner may decide to discuss elements of planning with the entity when determining the scope of the engagement or to facilitate the conduct and management of the engagement (e.g., to coordinate some of the planned procedures with the work of the entity's personnel). Although these discussions often occur, the overall engagement strategy and the engagement plan remain the practitioner's responsibility. When discussing matters included in the overall engagement strategy or engagement plan, care is needed in order not to compromise the effectiveness of the engagement. For example, discussing the nature and timing of detailed procedures with the entity may compromise the effectiveness of the engagement by making the procedures too predictable.

[ISAE 3410 Para. A40]

- A6. Planning is not a discrete phase, but rather a continual and iterative process throughout the engagement. As a result of unexpected events, changes in conditions, or evidence obtained, the practitioner may revise the overall strategy and engagement plan, and thereby the resulting planned nature, timing and extent of procedures. [ISAE 3000 (Revised) Para. A88]

#### *Scalability (Ref. Para. 3)*

- A7. In less complex engagements, the entire engagement may be conducted by a very small engagement team, possibly involving the engagement leader (who may be a sole practitioner) working without any other engagement team members. With a smaller team, coordination of, and communication between, team members is easier. Establishing the overall engagement strategy in such cases need not be a complex or time-consuming exercise; it varies according to the size of the entity, the complexity of the engagement, including the underlying subject matter and applicable criteria, the scope of the assurance engagement, and the size of the engagement team. For example, in the case of a recurring engagement, a brief memorandum prepared at the completion of the previous engagement, based on a review of the working papers and highlighting issues identified in the engagement just completed, updated in the current period based on discussions with appropriate parties, may be appropriate as the engagement strategy for the current engagement.

[ISAE 3000 (Revised) Para.A89]

*Nature, Timing and Extent of Planned Procedures* (Ref: Para. 4)

- A8. The level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement. Accordingly, the procedures the practitioner performs in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. The primary differences between the procedures for a reasonable assurance engagement and a limited assurance engagement include:
- (a) The emphasis placed on the nature of various procedures. For example, in a limited assurance engagement the practitioner may determine that it is appropriate to place greater emphasis on inquiries of the entity's personnel and analytical procedures, and less emphasis, if any, on testing of controls than may be the case for a reasonable assurance engagement.
  - (b) In a limited assurance engagement, the practitioner may:
    - (i) Select fewer items for examination; or
    - (ii) Perform fewer procedures (e.g., perform only analytical procedures in circumstances when, in a reasonable assurance engagement, both analytical procedures and other procedures would be performed).
  - (c) In a reasonable assurance engagement, analytical procedures performed in response to risks of material misstatement may involve developing expectations that are sufficiently precise to identify material misstatements. In a limited assurance engagement, analytical procedures may be designed to support expectations regarding the direction of trends, relationships and ratios rather than to identify misstatements with the level of precision expected in a reasonable assurance engagement.
  - (d) In a limited assurance engagement, when undertaking analytical procedures:
    - (i) If significant fluctuations, relationships or differences are identified, appropriate evidence may be obtained by making inquiries and considering responses received in light of known engagement circumstances.
    - (ii) The practitioner may, for example, use data that is more highly aggregated, or use data that has not been subjected to separate procedures to test its reliability to the same extent as it would be for a reasonable assurance engagement.

**[ISAE 3000 (Revised) Para. A3]**

- A9. The practitioner uses professional judgment in identifying the appropriate approach to planning and performing assurance procedures to obtain sufficient appropriate evidence. Understanding how the entity disaggregates or aggregates the sustainability information for purposes of reporting (i.e. how management has grouped the information for purposes of presentation), may assist the practitioner in planning the assurance engagement. Matters that may be relevant in this regard include:
- (a) Whether the applicable criteria addresses how the sustainability information should be presented, and how the entity has applied such criteria. Also see paragraph A10 below.
  - (b) The entity's reporting policies regarding preparation of the sustainability information.
  - (c) The reporting objectives of the entity, including its policies for classification and presentation of the sustainability information

- (d) The extent to which sustainability information:
  - (i) is processed using common information systems and controls, and
  - (ii) has a common unit of measure.
- (e) How sustainability information is communicated internally to management or those charged with governance.
- (f) Whether the disclosures relate to similar or interconnected topics, aspects of the topics, or characteristics of the disclosures.
- (g) How the entity's industry peers present the sustainability information.

[EER para. 183]

A10. Applicable criteria do not always specify in detail the required level of aggregation or disaggregation. They may, however, include principles for determining an appropriate level of aggregation or disaggregation in particular circumstances. For example, the applicable criteria may require the entity to report information that is sufficiently detailed to allow an assessment of the organization's impacts. The applicable criteria also may require or provide guidance for information:

- (a) By topics: All disclosures on climate; all disclosures on labor practices.
- (b) By aspects of topics: All disclosures regarding risks and opportunities (regardless of the topic); all disclosures regarding targets.
- (c) By topic and aspect of topic: All disclosures regarding targets for climate; all disclosures regarding scenario analysis for climate.
- (d) By characteristics: All disclosures that are qualitative; all disclosures that are forward-looking; all disclosures that are historical.
- (e) By characteristics by aspect of topic: All disclosures regarding targets that are judgmental; all disclosures regarding targets that are historical.

A10A. The practitioner may consider that the manner in which management has grouped the information for purposes of presentation is the most appropriate approach for the engagement. The practitioner may also decide that grouping the sustainability information differently may be more appropriate for the purposes of planning and performing the assurance engagement in a more effective and efficient manner. Factors that may be relevant to the practitioner's determination may include:

- the scope of the assurance engagement and the nature of the assurance conclusion(s)
- preliminary expectation of risk characteristics
- common systems of internal control.

[EER para. 183]

A10B. If the practitioner discovers that the preconditions in Part 3 paragraph 2 are not met, but is required to continue the engagement under law or regulation, the assurance report may address the matter. For example:

- (a) When, in the practitioner's professional judgment the intended users are likely to be misled, since either the applicable criteria are unsuitable, or the underlying subject matter is inappropriate, a qualified conclusion or adverse conclusion may be appropriate, depending on how material and pervasive the matter is.
- (b) A qualified conclusion or a disclaimer of conclusion may be appropriate in other circumstances depending on, in the practitioner's professional judgment, the materiality and pervasiveness of the matter. [Moved from Part 3 paragraph A53] [ISAE 3000 (Revised) Para. A90 and A91]

A11. [Deleted]

A12. [Deleted]

A13. [Deleted]

A14. [Deleted]

#### **Materiality (Ref. Para. 7)**

- A15. Professional judgments about materiality are made in light of surrounding circumstances, but are not affected by the level of assurance. That is, for the same intended users and purpose, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement because materiality is based on the information needs of intended users. [ISAE 3000 (Revised) Para. A92]
- A16. The applicable criteria may include principles to assist the entity in identifying information relevant to users, which may include terms that refer to materiality (e.g., double materiality). The practitioner considers materiality in the context of misstatements of the sustainability information within the scope of the assurance engagement. The applicable criteria may also discuss the concept of materiality in the context of misstatements of the sustainability information, which may provide a frame of reference for the practitioner in considering materiality for the engagement.
- A17. The concept of materiality ordinarily includes the following principles:
- (a) Judgments about matters that are material to intended users of the sustainability information are based on a consideration of the common information needs of intended users as a group.
  - (b) Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence decisions of intended users taken on the basis of the sustainability information.

[ISAE 3410 Para. A44]

A18. [Deleted]

- A19. The practitioner's determination of materiality is a matter of professional judgment, and is affected by the practitioner's perception of the common information needs of intended users as a group. In this context, it is reasonable for the practitioner to assume that intended users:
- (a) Have a reasonable knowledge of the underlying subject matter, and a willingness to study the sustainability information with reasonable diligence;
  - (b) Understand that the sustainability information is prepared and assured to appropriate levels of materiality, and have an understanding of any materiality concepts included in the applicable criteria;

- (c) Understand any inherent uncertainties involved in measuring or evaluating the underlying subject matter; and
- (d) Make reasonable decisions on the basis of the sustainability information taken as a whole.

[ISAE 3000 (Revised) Para.A94]

A20. Examples of intended users include shareholders, investors, lenders and other creditors who may use sustainability information to make resource allocation decisions. Other intended users who may be interested in the impact of the organization include consumers, taxpayers, employees, competition, prudential authorities, central banks and bodies in charge of financial stability oversight, those granting public contracts, partners, suppliers, community, indigenous peoples, government, regulators, and interest groups

[ISAE 3410 Para. A47]

A20A. In some cases, there may be intended users other than those to whom the assurance report is addressed. The practitioner may not be able to identify all those who will read the assurance report, particularly where a large number of people have access to it. In such cases, particularly where possible users are likely to have a broad range of interests in the underlying subject matter, intended users may be limited to major stakeholders with significant and common interests. Intended users may be identified in different ways, for example, by agreement between the practitioner and management or those charged with governance, or by law or regulation. [ISAE 3000 (Revised) Para. A16]

A21. Materiality relates to the sustainability information within the scope of the assurance engagement. Therefore, when the engagement covers some, but not all, of the sustainability information, materiality is considered in relation to only the sustainability information that is within the scope of the assurance engagement. [ISAE 3000 (Revised) Para. A99]

A21A. Materiality is considered in the context of qualitative factors and, when applicable, quantitative factors. The relative importance of qualitative factors and quantitative factors when considering materiality is a matter for the practitioner's professional judgment. Qualitative disclosures are more judgmental, which may heighten the need for the practitioner to exercise professional judgment in considering materiality. [Moved from paragraph A23] [ISAE 3000 (Revised) Para. A95]

A22. Not all disclosures involve the same materiality considerations. For different disclosures, the same intended users may have different information needs, and a different tolerance for misstatement. Considering qualitative factors may help the practitioner to identify disclosures that may be more significant to the intended users. For example, intended users may place more importance on information about food or drug safety than they do on information about the recycling of non-hazardous waste because the consequences of poor safety standards in food or drug production are likely to be more serious to human health than those for not recycling non-hazardous waste. They may, therefore, have a lower tolerance for misstatement of information about food or drug safety than about recycling of non-hazardous waste. [EER Para. 302 - 303]

A23. [Moved to paragraph A21A]

*Qualitative Materiality Considerations*

A24. Examples of qualitative factors that may be relevant to the practitioner's consideration of materiality include:

- (a) The number of persons or entities affected by the underlying subject matter.
- (b) The interaction between, and relative importance of, various topics or aspects of the topics when it is made up of multiple topics and aspects of the topics, such as a report that includes numerous performance indicators.
- (c) The characteristics of the presentation of the sustainability information when the applicable criteria allow for variations in the presentation.
- (d) The nature of a potential misstatement and when it would be considered material, for example, the nature of observed deviations from a control when the sustainability information is a statement that a process exists, or the control is effective.
- (e) Whether a potential misstatement could affect compliance with law or regulation.
- (f) In the case of periodic reporting on an underlying subject matter, the effect of an adjustment that affects past or current sustainability information or is likely to affect future sustainability information.
- (g) Whether a potential misstatement is the result of an intentional act or is unintentional.
- (h) Whether a potential misstatement would be significant having regard to the practitioner's understanding of known previous communications to users, for example, in relation to the expected outcome of the measurement or evaluation of the underlying subject matter.
- (i) When the underlying subject matter is a governmental program or public sector entity, whether a particular aspect of the program or entity is significant with regard to the nature, visibility and sensitivity of the program or entity.
- (j) If the applicable criteria include the concept of due diligence regarding impacts, the nature and extent of those impacts. For example, a practitioner may consider it a misstatement if an entity's disclosures about actions to prevent or mitigate negative impacts omitted or distorted the actions taken or ignored additional negative impacts, or the entity's actions were not effective to prevent or mitigate negative impacts.
- (k) When the disclosures are narrative, the level of detail of the description, the overall tone of the words used to describe the matter, significant aspects of the underlying subject matter, and the impact if the practitioner identified that information was omitted or distorted.

[ISAE 3000 (Revised) Para. A96]

A25. Qualitative factors may also be important in considering the way in which the sustainability information is presented. For example, when the preparer presents the disclosures in the form of graphs, diagrams or images, materiality considerations may include whether using different scales for the x- and y-axes of a graph may result in materially misstated or misleading information.

[EER Para. 304]

### *Quantitative Materiality Considerations*

A26. Quantitative factors relate to the magnitude of misstatements relative to the disclosures, if any, that are:

- (a) Expressed numerically; or
- (b) Otherwise related to numerical values (e.g., the number of observed deviations from a control may be a relevant quantitative factor when the sustainability information is a statement that the control is effective).

[ISAE 3000 (Revised) Para. A97]

A27. For disclosures that are quantitative (e.g., a key performance indicator expressed in numerical terms), materiality may be determined by applying a percentage to the reported metric, or to a chosen benchmark related to the disclosure. If the applicable criteria specify a percentage threshold for materiality, this may provide a frame of reference to the practitioner in determining materiality for the disclosure. Examples of thresholds may include x% of investment in community projects (in hours or monetary terms), y% of energy consumed (in kWh), or z% of land rehabilitated (in hectares).

[EER Para. 299-300]

A28. Misstatements of amounts smaller than the quantitative materiality threshold may have a material effect on the reported sustainability information from a qualitative perspective. For example, if an error results in a reversal of a declining trend in an indicator, or if an error prevents an entity from achieving regulatory requirements, these may be considered material, even if the quantitative error is smaller than the quantitative threshold. [EER Para.301]

A29. The applicable criteria may require disclosures of historical cost financial information. For example, topics reported may include community investment, training expenditures, or taxes by jurisdiction. These may also be reported in the entity's financial statements. The practitioner, or another practitioner, may be engaged to audit those financial statements. The materiality used for these aspects of the disclosures need not be the same as the materiality used in the audit of the entity's financial statements.

### *Reconsideration of Materiality as The Engagement Progresses*

A29A. Materiality may need to be revised as a result of a change in circumstances during the assurance engagement (for example, the disposal of a major part of the entity's business), new information, or a change in the practitioner's understanding of the entity and its operations as a result of performing procedures. For example, it may become apparent during the engagement that actual emissions are likely to be substantially different from those expected during planning. If during the engagement the practitioner concludes that a different materiality is appropriate, it may be necessary to revise the nature, timing and extent of further procedures. [Moved from paragraph A31] [ISAE 3410 Para. A51]

### *Performance Materiality (Ref: Para. 7A)*

A29B. Performance materiality may be used during different stages of the assurance engagement. For example, performance materiality may be useful to help identify disclosures where material misstatements are likely to arise (in a limited assurance engagement), or to help identify and assess

risks of material misstatement at the assertion level for each disclosure (in a reasonable assurance engagement) and, to determine the nature, timing and extent of further procedures.

[ISAE 3410 Para. 21]

A30. When quantitative factors are applicable, planning the engagement solely to detect individually material misstatements overlooks aggregation risk, which is the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. Aggregation risk arises because the sustainability information may be disaggregated by the preparer for purposes of applying the applicable criteria, or by the practitioner for the purpose of designing and performing assurance procedures. It may therefore be appropriate when planning the nature, timing and extent of procedures for the practitioner to:

- (a) Consider setting performance materiality for quantitative disclosures to reduce aggregation risk to an appropriately low level; or
- (b) Consider what types of errors or omissions would potentially constitute a material misstatement when aggregated with other misstatements.

[ISAE 3000 (Revised) Para. A98 and EER Para. 279-281, 284]

A30A. Performance materiality does not address misstatements that would be material solely or principally due to qualitative factors that affect their significance. However, designing procedures to increase the likelihood that misstatements that are material solely or principally because of qualitative factors, to the extent it is possible to do so, may also assist the practitioner in addressing aggregation risk.

[EER Para. 287]

A31. [Moved to paragraph A29A]

## Part 6: Risks of Material Misstatement

### **Obtaining an Understanding to Identify Disclosures where Material Misstatements are Likely to Arise (Limited Assurance) or Identify and Assess Risks of Material Misstatement (Reasonable Assurance)**

*Risk Procedures to Obtain an Understanding* (Ref: Para. 1L, 1R, 1A)

A1L. Identifying the disclosures where a material misstatement is likely to arise enables the practitioner to focus further procedures on those disclosures. For example, the practitioner may be engaged to provide assurance over different aspects of a topic (e.g., accuracy of a description, the design and operating effectiveness of controls). In other circumstances, a group of disclosures within the sustainability information may be interrelated such that, in order to obtain meaningful assurance, the disclosures need to be considered as a whole. The practitioner may design and perform procedures over the entire sustainability information when it consists of only a single disclosure or when obtaining assurance over all disclosures is necessary to obtain meaningful assurance. For example, the practitioner may be engaged to provide assurance over different aspects of a topic (e.g., accuracy of a description, the design and operating effectiveness of controls). In other circumstances, a group of disclosures within the sustainability information may be interrelated such that, in order to obtain meaningful assurance, the disclosures need to be considered as a whole.

[ISAE 3000 (Revised) Para. A104 & A105]

- A1R. Understanding the underlying subject matter and the sustainability information, the entity and its environment and the applicable criteria helps the practitioner to identify the susceptibility of the sustainability information to misstatement. For example, the aspects of the topics comprising the underlying subject matter and the disclosures may be affected by complexity, judgment, change, uncertainty, or susceptibility to misstatement due to management bias or fraud, thus resulting in a risk of material misstatement, whether due to fraud or error. [ISA 315 (Revised 2019)<sup>17</sup> Para. 19 (c)]
- A1AL. In rare circumstances, in performing risk procedures, the practitioner may not identify any disclosures where a material misstatement of the sustainability information is likely to arise. Irrespective of whether any such disclosures have been identified, the practitioner designs and performs procedures to obtain a meaningful level of assurance. In such cases, the practitioner may
- Consider whether the risk procedures performed provide an appropriate basis to identify disclosures where a material misstatement is likely to arise,
  - Perform additional risk procedures,
  - Design and perform further procedures on disclosures that are material to the sustainability information. [Moved from paragraph A6L] [ISAE 3000 Para. 112]
- A1B. Risk procedures are part of an iterative and dynamic process. In obtaining an understanding, initial expectations about disclosures where material misstatements are likely to arise (in a limited assurance engagement) or risks of material misstatement (in a reasonable assurance engagement) may be developed, which may be further refined as the practitioner progresses through the engagement, or if new information is obtained. Risk procedures by themselves do not provide sufficient appropriate evidence on which to base the assurance conclusion. [Moved from paragraph A7] [ISAE 3410 Para. A53 and ISA 315 (Revised 2019) Para. A19]
- A1C. The practitioner may perform further procedures concurrently with risk procedures when it is efficient to do so. For example:
- In a limited assurance engagement, evidence obtained that supports the identification of disclosures where the risk of material misstatement is likely to arise may also support the practitioner's conclusion that the matter is not likely to cause the subject matter information to be materially misstated.
  - In a reasonable assurance engagement, evidence obtained that supports the identification and assessment of risks of material misstatement may also support the evaluation of the operating effectiveness of controls. [First sentence of lead-in moved from paragraph A6R]
- [ISA 315 (Revised 2019) Para. A19]
- A1D. Part 3 paragraph 1 requires the practitioner to obtain a preliminary knowledge of the engagement circumstances to provide an appropriate basis for determining whether the preconditions for the engagement are present. This preliminary knowledge ordinarily is not sufficient to fulfill the requirements in paragraphs 1L and 1R.

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<sup>17</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

- A1E. For example, the practitioner’s preliminary knowledge of the engagement circumstances includes an understanding of the sustainability information expected to be reported sufficient for the practitioner to determine that the engagement team collectively has the appropriate competence and capabilities to perform the engagement. The understanding required to identify disclosures where material misstatements are likely to arise (for limited assurance) or to identify and assess the risks of material misstatement (for reasonable assurance) ordinarily requires a more detailed understanding of the sustainability information, including understanding characteristics of conditions, events, circumstances, actions, or inactions that could give rise to risks of material misstatement and may be different for different disclosures.
- A2. The practitioner uses professional judgment to determine the extent of the understanding and the nature, timing and extent of risk procedures that are required to obtain reasonable or limited assurance as appropriate. The depth of understanding that is required by the practitioner is less than that possessed by management in managing the entity. [ISAE 3410 Para. A52]
- A3L. [Deleted]
- A4. The type of risk procedures performed by the practitioner may include the following:
- (a) Inquiries of management, of appropriate individuals within the internal audit function (if the function exists), and of others within the entity who, in the practitioner’s judgment, may have information that is likely to assist in identifying disclosures where material misstatements are likely to arise (limited assurance) or identifying risks of material misstatement (reasonable assurance), whether due to fraud or error;
  - (b) Analytical procedures;
  - (c) Observation and inspection.
- [ISA 315 (Revised 2019) Para. 14]
- A5. Designing and performing risk procedures to obtain evidence in an unbiased manner may involve obtaining evidence from multiple sources including:
- (a) Interactions with management, those charged with governance, and other key entity personnel, which may include personnel within the entity who work in functions relevant to the sustainability information (such as Human Resources) or internal auditors.
  - (b) Certain external parties such as regulators, whether obtained directly or indirectly.
  - (c) Publicly available information about the entity and its industry, for example, entity-issued press releases, materials for analysts or investor group meetings, analysts’ reports, or information about sustainability impact.
- [ISA 315 (Revised 2019) Para. A15]
- A6L. [Moved to paragraph A1L]
- A6R. [Lead in paragraph moved to paragraph A1C; Remainder deleted]
- A7. [Moved to paragraph A1B]
- A8. [Moved to paragraph A13A]

A9. Preliminary understanding of the underlying subject matter and the sustainability information, the entity and its environment and the applicable criteria obtained in the engagement acceptance and continuance process may provide important evidence to support the required understanding. For example, one of the preconditions for accepting the engagement is determining the suitability of the criteria. The practitioner may have already obtained an extensive understanding of the applicable criteria in accepting the engagement and may supplement this understanding for the purpose of performing risk procedures. Information the practitioner may also consider in obtaining an understanding include:

- (a) When applicable, other engagements performed by the engagement leader for the entity, such as the audit of financial statements or verification of specific matters (e.g., verification of water consumption for a significant operation within the entity).
- (b) Previous experience with the entity, if such information remains relevant and reliable as evidence for the current engagement.

[ISA 315 (Revised 2019) Para. 15-16]

A10. The nature and extent of risk procedures will vary based on the nature and circumstances of the entity (e.g., the formality of the entity's policies and procedures, and processes and systems), the nature and complexity of the underlying subject matter and the characteristics of the disclosures. The practitioner uses professional judgment to determine the nature and extent of the risk procedures to be performed to meet the requirements of this ISSA as appropriate to the level of assurance to be obtained. [ISA 315 (Revised 2019) Para. A16]

Inquiries and Discussion with Appropriate Parties, the Engagement Team and the Practitioner's External Experts (Ref: Para. 2-3)

A11. Inquiries of appropriate parties and, when appropriate, others within the entity may offer the practitioner varying perspectives in performing risk procedures. For example:

- (a) Inquiries directed towards those charged with governance may help the practitioner understand the extent of oversight by those charged with governance over the preparation of the sustainability information.
- (b) Inquiries of management may help the practitioner to evaluate the appropriateness of the selection and application of the applicable criteria.
- (c) Inquiries directed towards in-house legal counsel may provide information about matters such as litigation, compliance with laws and regulations, knowledge of fraud or suspected fraud affecting the sustainability information.
- (d) Inquiries directed towards the risk management function (or inquiries of those performing such roles) may provide information about operational and regulatory risks that may affect the sustainability information.
- (e) Inquiries directed towards IT personnel may provide information about system changes, system or control failures, or other IT-related risks.

[ISA 315 (Revised 2019) Para. A23]

- A12. If an entity has an internal audit function, inquiries of the appropriate individuals within the function may assist the practitioner in understanding the entity and its environment and the entity's system of internal control, in identifying disclosures where material misstatements are likely to arise (limited assurance) or identifying and assessing risks of material misstatement (reasonable assurance).

[ISA 315 (Revised 2019) Para. A25]

- A13. Discussions between the engagement leader and other key members of the engagement team, and any key practitioner's external experts may assist the engagement team in planning and performing the engagement. It is also useful to communicate relevant matters to members of the engagement team, and to any practitioner's external experts not involved in the discussion.

[ISAE 3000 (Revised) Para. A101]

- A13A. Information obtained by the practitioner through inquiries of an appropriate party(ies), or others may provide important evidence to support the required understanding; however, inquiry alone ordinarily does not provide sufficient evidence to meet the objective stated in this standard. [Moved from A8]

[ISA 315 (Revised 2019) Para. A22]

#### **Understanding the Underlying Subject Matter and the Sustainability Information (Ref: Para. 4)**

- A14L. [Deleted]

- A14R. [Deleted]

- A14. The characteristics of conditions, events, circumstances, actions, or inactions that could give rise to risks of material misstatement may be different for different disclosures. For example:

- (a) The risks of material misstatement related to information about the entity's waste generated in the entity's own activities may be different from the risks of material misstatement related to information about the waste generated upstream or downstream in entity's value chain .

[Moved from paragraph A14R]

- (b) The risks of material misstatement in historical quantitative information may be different from the risks of material misstatement in forward-looking qualitative information.

- A15R. Because of the nature of the underlying subject matter described in paragraph A1R, it may be complex to measure or evaluate or be subject to uncertainties. For example, potential climate-related risks, the likelihood of their occurrence, and their expected short, medium, and long-term impacts on an entity and its supply chain may be both complex to measure and evaluate and subject to a high degree of uncertainty. As a result of the inherent uncertainties, the risk of material misstatement of the sustainability information may be higher, or it may be difficult to identify and assess the risks of material misstatement of the sustainability information. [EER Para. 51, 363, 365]

- A16. [Moved to paragraph A23A]

- A17. [Moved to paragraph A23B]

- A18. [Moved to paragraph A23C]

- A19. [Moved to paragraph A23D]

## **Understanding the Applicable Criteria (Ref: Para. 6 and 7)**

A20. Understanding the applicable criteria assists the practitioner in identifying the susceptibility of the disclosures to misstatement. For example, the practitioner may:

- (a) Identify elements of the applicable criteria that may be more susceptible to incorrect interpretation and application by the entity in preparing the sustainability information.
- (b) Identify where the entity has the ability to exercise judgment in applying the applicable criteria, and therefore may give rise to risks of material misstatement due to inappropriate judgments in the circumstances of the entity.
- (c) Identify aspects of the applicable criteria that may be more susceptible to manipulation, for example, when the entity is permitted to prepare the information on a comply or explain basis, provided the entity has a reasonable basis for doing so.
- (d) Determine that the entity's process for identifying, evaluating and applying the applicable criteria is lacking, which may give rise to a heightened risk that the applicable criteria are not appropriately applied by the entity.

A21. The understanding of the applicable criteria may include:

- (a) The uncertainties and complexities associated with identifying the framework criteria, and the entity-developed criteria used to interpret the framework.
- (b) The criteria for identifying the relevant topics and aspects of the topics to be presented and disclosed in the sustainability information.
- (c) The criteria for identifying the reporting boundary, and whether this differs for each disclosure.
- (d) How the entity develops its own criteria, including criteria used to interpret the framework criteria (e.g., the selection and application of quantification methods and reporting policies), and controls over the entity's process.

[ISA 315 (Revised 2019) Para. 19 (a) and (b) and ISAE 3410 Para. 23]

A22. [Deleted]

A23. Framework criteria may not be considered suitable on their own (e.g., may be incomplete or subject to interpretation in application). Therefore, the entity may supplement the framework criteria so that the applicable criteria are suitable. The process of developing the applicable criteria and applying it to the underlying subject matter may be complex, require judgment, and may be susceptible to bias. The evaluation required in paragraph 7 may result in the practitioner identifying disclosures where there is an increased susceptibility to misstatement or cause the practitioner to re-evaluate the suitability of the applicable criteria.

## **Understanding the Entity and Its Environment and Components of its Internal Control**

*Understanding the Entity and Its Environment* (Ref: Para. 7A)

A23A. The practitioner uses professional judgment to determine the characteristics of the entity and its environment that are relevant to the sustainability information and therefore are necessary to understand. The practitioner's primary consideration is whether the understanding that has been obtained is sufficient to meet the objective of the risk procedures. The practitioner may be required

to understand fewer attributes of the entity and its environment in the case when the scope of the assurance engagement is limited to certain sustainability information (e.g., discrete metrics). On the other hand, an understanding across a broader range of the attributes of the entity and its environment may be necessary if the scope of the assurance engagement addresses multiple topics or aspects of the topics. [Moved from paragraph A16]

A23B. The practitioner's understanding of the entity and its environment may include an understanding of the following:

- (a) The nature of the entity, and its sustainability-related business risks, including:
  - (i) The nature of the operations included in the reporting boundary, including:
    - a. Whether the activities or operations within the reporting boundary are internal or external to the entity;
    - b. The contribution of each activity or operation to the sustainability information disclosed, including entities or operations within the value chain, if material to the sustainability information; and
    - c. The uncertainties associated with the quantities reported in the sustainability information.
  - (ii) Changes from the prior period in the nature of the entity, its business risks, or the reporting boundary, including whether there have been any mergers, acquisitions, disposals, or outsourcing of functions.
  - (iii) The frequency and nature of interruptions to operations.
- (b) The entity's governance and oversight, strategy, goals, and targets with respect to topics, and changes from the prior period (e.g., new commitments to goals and targets).
- (c) The maturity of the systems, processes and controls over sustainability information and the extent to which they integrate the use of IT.
- (d) The measures used, internally and externally, to assess the entity's performance with respect to topics and aspects of topics. [Moved from paragraph A17]

[ISA 315 (Revised 2019) Para.19 (a) and (b) and ISAE 3410 Para 23]

A23C. Understanding the reporting boundary may require the analysis of complex organizational structures (e.g., multiple operating units in different jurisdictions), contractual relationships and activities within the entity's value chain. Operational boundaries may also have implications for the reporting boundary. For example, a facility may be owned by one party, operated by another, and process materials solely for a third party, but the sustainability activities of all three entities may be within the reporting boundary. [Moved from paragraph A18]

A23D. The entity's organizational boundary may be different from the reporting boundary. The organizational boundary relates to operations owned or controlled by the entity. The reporting boundary relates to the activities, operations, relationships, or resources covered by the sustainability information. [Moved from paragraph A19]

Understanding the Entity's Internal Control (Ref: Para. 8L, 8R)

- A24. Understanding internal control relevant to the preparation of the sustainability information assists the practitioner in identifying the types of misstatements that may occur and factors that affect disclosures where material misstatements are likely to arise (limited assurance) or risks of material misstatement in the disclosures (reasonable assurance).
- A25. The practitioner's understanding of relevant components of internal control may raise doubts about the practitioner's ability to obtain sufficient appropriate evidence on which to base the assurance conclusion or may indicate a need to withdraw from the engagement when withdrawal is possible under applicable law or regulation. For example:
- (a) Concerns about the integrity of those preparing the sustainability information may be so serious as to cause the practitioner to conclude that the risk of management misrepresentation in the sustainability information is such that an engagement cannot be conducted.
  - (b) Concerns about the condition and reliability of an entity's records may cause the practitioner to conclude that it is unlikely that sufficient appropriate evidence will be available to support an unmodified conclusion on the sustainability information.

[ISAE 3410 Para. A70 and ISA 315 (Revised 2019) Para. A198]

- A26L. In a limited assurance engagement, the practitioner is not required to obtain an understanding of all the components of internal control relevant to the preparation of the sustainability information as is required in a reasonable assurance engagement. Therefore, in a limited assurance engagement, while it may often be appropriate to inquire of the entity about control activities and monitoring of controls relevant to the preparation of the sustainability information, it will often not be necessary to obtain a detailed understanding of these components of the entity's internal control.
- [ISAE 3410 Para. A69]

- A27. In some circumstances, the underlying subject matter may be related to controls (i.e., the controls are the aspects of the topics),. For example, the sustainability information may comprise disclosures that describe the design, implementation, or effectiveness of controls over occupational health and safety. Paragraph 4 requires the practitioner to understand the underlying subject matter (in this case, controls over occupational health and safety). Paragraphs 8L and 8R require a different level of understanding of internal control related to the processes used to design, implement, or operate the controls over occupational health and safety and the processes to prepare information about those controls.
- A28. The level of formality of the entity's system of internal control, including the control environment, the entity's risk assessment process and process to monitor the system of internal control, may vary by size and complexity of the entity, and the nature and complexity of the underlying subject matter and the applicable criteria. [EER Para. 234]

- A29. The nature and extent of the practitioner's understanding of the elements of the system of internal control may vary depending on the complexity of the assurance engagement and the nature and complexity of the topics and aspects of the topics comprising the underlying subject matter. As the entity, the topics and the aspects of the topics become more complex, more extensive procedures may be necessary to understand the elements of internal control, for example, by performing a walkthrough to confirm inquiries of personnel. A walkthrough involves selecting events or conditions and tracing them through the applicable process in the information system. [EER Para. 247]

The Control Environment (Ref: Para. 9L, 9R)

- A30L. The practitioner's understanding of the control environment, such as how the entity demonstrates behavior consistent with the entity's commitment to integrity and ethical values, may assist the practitioner in identifying disclosures where material misstatements are likely to arise. For example, deficiencies in the control environment may increase the risk of material misstatement in the sustainability information. [ISA 315 (Revised 2019) Para. A103].

- A30R. The practitioner's evaluation of the control environment may assist the practitioner in identifying potential issues in the other components of the system of internal control. This is because the control environment is foundational to the other components of the system of internal control. This evaluation may also assist the practitioner in understanding risks faced by the entity and identifying and assessing the risks of material misstatement at the assertion level for the disclosures.

[ISA 315 (Revised 2019) Para. A103]

- A31. The practitioner may obtain an understanding of the control environment relevant to the preparation of the sustainability information by understanding the set of controls, processes and structures that address:

- (a) How management's oversight responsibilities are carried out, such as the entity's culture and management's commitment to integrity and ethical values;
- (b) When those charged with governance are separate from management, the independence of, and oversight over, the system of internal control by those charged with governance;
- (c) The entity's assignment of authority and responsibility;
- (d) How the entity attracts, develops, and retains competent individuals; and
- (e) How the entity holds individuals accountable for their responsibilities in the pursuit of the objectives of the system of internal control.

[ISA 315 (Revised 2019) Para. 21]

- A32. Information about components of the control environment in less complex entities may not be available in documentary form, in particular when communication between management and other personnel is informal, but the information may still be appropriately relevant and reliable in the circumstances. For example, the practitioner may observe the entity's past and current practices, informational statements and engagement with stakeholders that allow the practitioner to draw inferences, even if policies have not been documented formally. [ISA 315 (Revised 2019) Para. A100]

The Information System (Ref: Para. 10L, 10R)

- A33. The entity's information system and communication are likely to involve the use of IT to collect or process data and information. Entities may use complex IT applications, simple spreadsheets or paper-based records, or a combination of these. The practitioner's understanding of the information system includes the IT environment, IT applications and other aspects of the IT environment that are relevant to the flows and processing of sustainability information in the information system. 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. For example, Changes in the flow of information within the information system may result from program changes to IT applications, or direct changes to data in databases involved in processing or storing that information. [ISA 315 (Revised 2019) Para. A140 and A142]
- A34. Obtaining an understanding of the information system relevant to the preparation of the sustainability information assists the practitioner in designing and performing procedures that address the disclosures where material misstatements are likely to arise (limited assurance) or identifying risks of material misstatement (reasonable assurance). The practitioner uses professional judgment to determine which aspects of the information system are relevant to the engagement and may make inquiries of the appropriate party about those aspects. [ISAE 3000 (Revised) Para. A107]
- A35. An understanding of the information system relevant to the preparation of the sustainability information may include an understanding of the following aspects:
- (a) The entity's information processing activities, including its data and information, the resources to be used in such activities and the policies or procedures that define, for the sustainability information:
    - (i) The selection or development of criteria, including the entity's process to identify topics and aspects of topics to be addressed in the sustainability information;
    - (ii) The measurement or evaluation of the underlying subject matter;
    - (iii) The review of the disclosures, including whether they are appropriate and complete, and, where necessary, include disclosure of changes to the criteria since the previous reporting period;
    - (iii) How data and information, including qualitative information, are captured, recorded, processed, corrected, and presented in the sustainability information. Such policies and procedures may include internal verification processes whereby the data and information are checked by a reviewer for accuracy and completeness, and signed off to evidence that the review has taken place;
    - (iv) Specific information and other supporting records relating to the flow of sustainability information in the information system;
    - (v) The processes used to prepare the entity's sustainability information; and
    - (vi) How the entity uses IT to support the preparation of the entity's sustainability information.
  - (b) How the entity communicates significant matters that support the preparation of the sustainability information and related reporting responsibilities in the information system and other components of the system of internal control:

- (i) Between people within the entity, including how sustainability information roles and responsibilities are communicated;
  - (ii) Between management and those charged with governance;
  - (iii) With intended users; and
  - (iiii) With external parties, such as regulatory authorities.
- (c) The entity's policies or procedures and controls that address the reliability of information. For example, the entity's controls may address the reliability of information from external sources by:
- (i) Monitoring information provided to, and received back from, the external source;
  - (ii) Considering the reputation of the external source; and
  - (iii) Considering whether there are other sources of similar information, and whether the information from such different available sources is aligned.

**[ISA 315 (Revised 2019) Para. 25 and EER Para. 237]**

A36. The practitioner's understanding of the information system may be obtained in various ways and may include:

- (a) Inquiries of relevant personnel about the procedures used to initiate, record, process and report events and conditions related to the topics and aspects of the topics;
- (b) Inspection of policy or process manuals or other documentation of the information system;
- (c) Observation of the performance of the policies or procedures by the entity's personnel; or
- (d) Selecting events or conditions and tracing them through the applicable process in the information system (i.e., performing a walk-through).

**[ISA 315 (Revised 2019) Para. A136]**

A37. The information system and how the entity communicates in less complex entities are likely to be less sophisticated than in larger entities and are likely to involve a less complex IT environment; however, the role of the information system is just as important. Less complex entities with direct management involvement may not need extensive descriptions of procedures, sophisticated records, or written policies. Understanding the relevant aspects of the entity's information system may therefore require less effort in an engagement for a less complex entity and may involve a greater amount of inquiry than observation or inspection of documentation. The need to obtain an understanding, however, remains important to provide a basis for the design of further procedures and may further assist the practitioner in identifying disclosures where material misstatements are likely to arise (limited assurance) or identifying and assessing risks of material misstatement (reasonable assurance). **[ISA 315 (Revised 2019) Para. A131]**

The Entity's Risk Assessment Process (Ref: Para. 11L, 11R)

A38. In both a reasonable assurance and a limited assurance engagement, the results of the entity's risk assessment process may assist the practitioner in

- (a) Identifying disclosures where material misstatements are likely to arise (limited assurance) or identifying and assessing risks of material misstatement in the disclosures (reasonable assurance); and
- (b) Obtaining an understanding of the underlying subject matter and other engagement circumstances.

[ISAE 3000 (Revised) Para. A108]

A39R. The practitioner's evaluation of the entity's risk assessment process allows the practitioner to understand where the entity has identified risks that may occur, and how the entity has responded to those risks. The practitioner's evaluation of how the entity identifies its risks, and how it assesses and addresses those risks assists the practitioner in understanding whether the risks faced by the entity have been identified, assessed, and addressed as appropriate to the nature and complexity of the entity. This evaluation may also assist the practitioner with identifying and assessing risks of material misstatement at the assertion level for the disclosures. [ISA 315 (Revised 2019) Para. A111]

A40R. Under some applicable criteria, the entity is required to identify and provide information about sustainability-related risks and opportunities, including the process(es) by which sustainability-related risks and opportunities are identified, assessed and managed. Therefore, understanding and evaluating the entity's risk assessment process may also assist the practitioner in identifying and assessing risks of material misstatement related to the appropriate application of the applicable criteria by the entity. For example, if the practitioner identifies potential deficiencies in the entity's risk assessment process the practitioner may determine that there is a heightened risk that sustainability-related risks and opportunities may not have been identified by the entity and are therefore incomplete in the sustainability information.

A41R. Not all risks identified by the entity give rise to risks of material misstatement. In understanding how management and those charged with governance have identified risks relevant to the preparation of the sustainability information, and decided about actions to address those risks, the practitioner may consider how management or, as appropriate, those charged with governance, have:

- (a) Specified the entity's objectives with sufficient precision and clarity to enable the identification and assessment of the risks relating to the objectives;
- (b) Identified the risks to achieving the entity's objectives and analyzed the risks as a basis for determining how the risks should be managed; and
- (c) Considered the potential for fraud when considering the risks to achieving the entity's objectives.

[ISA 315 (Revised 2019) Para. A109]

A42R. If the practitioner identifies risks of material misstatement that the entity failed to identify, and those risks are of a kind that the practitioner expects would have been identified by the entity's risk assessment process, it may be an indicator that the entity's risk assessment process is not appropriate to the entity's circumstances considering the nature and complexity of the entity.

**[ISA 315 (Revised 2019) Para. 23]**

**Control Activities (Ref: Para. 12L, 12R)**

A42AL. Other controls for which it may be appropriate for the practitioner to obtain an understanding include controls that may, for example, provide information to the practitioner about:

- Disclosures where management believes the risks of material misstatement may arise; or
- Documents and records that may be available for the purpose of designing and performing further procedures.

A42AR. Other controls for which it may be appropriate for the practitioner to obtain an understanding include controls that may, for example:

- Address assessed risks of material misstatement based on their likelihood and magnitude;
- Provide information to the practitioner about disclosures where management believes the risks of material misstatement may arise; or
- Provide information to the practitioner about documents and records that may be available for the purpose of designing and performing further procedures.

A43R. **[Moved to paragraph A58A]**

A44R. **[Moved to paragraph A58B]**

A45. The control activities include controls that are designed to ensure the proper application of policies (which are also controls) in all the other components of the entity's system of internal control and includes both direct and indirect controls. Examples of controls in the control activities component include authorizations and approvals, reconciliations, verifications (such as edit and validation checks or automated calculations), segregation of duties, and physical or logical controls.

**[ISA 315 (Revised 2019) Para. A147 and A153]**

A46. The practitioner's identification and evaluation of controls in the control activities component may focus on information processing controls, which are controls applied during the processing of information in the entity's information system that directly address risks to the integrity of information (i.e., the completeness, accuracy, and validity of information). However, the practitioner is not required to identify and evaluate all information processing controls.

**[ISA 315 (Revised 2019) Para. A148]**

**Design and Implementation of Controls (Ref: Para. 12AL, 12AR)**

A47. Evaluating the design of an identified control involves the practitioner's consideration of whether the control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements (i.e., the control objective).

**[ISA 315 (Revised 2019) Para. A175]**

A48. The practitioner determines the implementation of an identified control by establishing that the control exists and that the entity is using it. There is little point in the practitioner assessing the implementation of a control that is not designed effectively. Therefore, the practitioner evaluates the design of a control first. An improperly designed control may represent a control deficiency.

**[ISA 315 (Revised 2019) Para. A176]**

A49L. The practitioner may conclude that a control, which is effectively designed and implemented, may be appropriate to test in order to take its operating effectiveness into account in designing procedures focused on the disclosures where the risk of material misstatement is likely to arise. However, when a control is not designed or implemented effectively, there is no benefit in testing it.

**[ISA 315 (Revised 2019) Para. A179]**

A49R. The practitioner may conclude that a control, which is effectively designed and implemented, may be appropriate to test in order to take its operating effectiveness into account in designing procedures to respond to the risk of material misstatement. However, when a control is not designed or implemented effectively, there is no benefit in testing it. When the practitioner plans to test a control, the information obtained about the extent to which the control addresses the risk(s) of material misstatement is an input to the practitioner's risk assessment at the assertion level.

**[ISA 315 (Revised 2019) Para. A179]**

A50. Evaluating the design and determining the implementation of control activities is not sufficient to test their operating effectiveness. However, for automated controls, the practitioner may plan to test the operating effectiveness of automated controls by identifying and testing general IT controls that provide for the consistent operation of an automated control instead of performing tests of operating effectiveness on the automated controls directly. **[ISA 315 (Revised 2019) Para. A180]**

A51A. The practitioner may expect more formal documentation of the information system and control activities when the information system and control activities form part of the underlying subject matter (e.g., when the sustainability information is about the entity's controls).

A51R. **[Deleted]**

The Entity's Process for Monitoring the System of Internal Control (Ref: Para. 13R)

A52R. Understanding the entity's process for monitoring the system of internal control relevant to the preparation of the sustainability information may involve understanding:

- (a) Those aspects of the entity's process that address:
  - (i) Ongoing and separate evaluations for monitoring the effectiveness of controls, and the identification and remediation of control deficiencies identified;
  - (ii) The entity's internal audit function, if any, including its nature, responsibilities, and activities; and
- (b) The sources of information used in the entity's process to monitor the system of internal control, and the basis upon which management considers the information to be sufficiently reliable for the purpose.

**[ISA 315 (Revised 2019) Para.24(a)]**

A53R. The practitioner's evaluation of the entity's process for monitoring the system of internal control assists the practitioner in understanding whether the other components of the system of internal control are present and functioning, and therefore assists with understanding the other components of the system of internal control. This evaluation may also assist the practitioner with identifying and

assessing risks of material misstatement at the assertion level for the disclosures. [ISA 315 (Revised 2019) Para. A121]

A54R. Matters that may be relevant for the practitioner to consider when understanding how the entity monitors its system of internal control include:

- (a) The design of the monitoring activities, for example, whether it is periodic or ongoing monitoring;
- (b) The performance and frequency of the monitoring activities;
- (c) The evaluation of the results of the monitoring activities, on a timely basis, to determine whether the controls have been effective; and
- (d) How identified deficiencies have been addressed through appropriate remedial actions, including timely communication of such deficiencies to those responsible for taking remedial action.

[ISA 315 (Revised 2019) Para. A116]

A55R. The practitioner may also consider how the entity's process to monitor the system of internal control addresses monitoring information processing controls that involve the use of IT. This may include, for example:

- (a) Controls to monitor complex IT environments that:
  - (i) Evaluate the continuing design effectiveness of information processing controls and modify them, as appropriate, for changes in conditions; or
  - (ii) Evaluate the operating effectiveness of information processing controls.
- (b) Controls that monitor the permissions applied in automated information processing controls that enforce the segregation of duties.
- (c) Controls that monitor how errors or control deficiencies related to the automation of sustainability reporting are identified and addressed.

[ISA 315 (Revised 2019) Para. A117]

A56R. In less complex entities, and in particular owner-manager entities, the practitioner's understanding of the entity's process to monitor the system of internal control is often focused on how management or the owner-manager is directly involved in operations, as there may not be any other monitoring activities. [ISA 315 (Revised 2019) Para. A114]

A57R. For entities where there is no formal process for monitoring the system of internal control, understanding the process to monitor the system of internal control may include understanding periodic reviews of information that are designed to contribute to how the entity prevents or detects misstatements. [ISA 315 (Revised 2019) Para. A115]

**Identifying Control Deficiencies** (Ref: Para. 14L, 14R)

A58A. If controls are not designed effectively or implemented, control deficiencies may create an opportunity for misstatement due to fraud or error. Accordingly, understanding the control activities and evaluating the design and implementation of identified controls may assist the practitioner in identifying and assessing risks of material misstatement due to fraud or error. [Moved from paragraph A43R]

A58B. If deficiencies are identified related to the control environment, this may affect the practitioner's overall expectations about the operating effectiveness of control activities, and therefore the practitioner's plans to test the operating effectiveness of controls. [Moved from paragraph A44R]

[ISA 315 (Revised 2019) Para. A164]

A58R. Unless the practitioner is engaged to express an opinion the effectiveness of controls, the practitioner obtains an understanding of controls relevant to the engagement in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. However, in performing the evaluations of each of the components of the entity's system of internal control, the practitioner may determine that certain of the entity's policies are not appropriate to the nature and circumstances of the entity. Such a determination may be an indicator that assists the practitioner in identifying control deficiencies. If the practitioner has identified one or more control deficiencies, the practitioner may consider the effect of those control deficiencies on the design of further procedures. [ISA 315 (Revised 2019) Para. A182]

A59. The practitioner's understanding of the control environment and other components of the system of internal control may raise doubts about the practitioner's ability to obtain evidence on which to base the assurance conclusion or be cause for withdrawal from the engagement when withdrawal is possible under applicable law or regulation. [ISA 315 (Revised 2019) Para. A198]

A59A. If the practitioner's understanding (for limited assurance) or evaluation (for reasonable assurance) of the entity's control environment or other components of internal control raise doubts about the ability to obtain evidence on which to base the assurance conclusion, the practitioner may:

- Perform additional risk procedures until evidence has been obtained to alleviate the practitioner's doubts;
- Withdraw from the engagement when permitted by law or regulation;
- Consider the implications for the practitioner's report.

A59B. For example, based on the understanding of the information system, the practitioner may determine that there are significant concerns about the condition and reliability of the entity's records. In such circumstances, the practitioner may determine that it is unlikely that sufficient appropriate evidence will be available to support an unmodified opinion on the sustainability information. Part 8 paragraph 28 establishes requirements and provides guidance in determining whether there is a need for the practitioner to express a qualified opinion or disclaim an opinion or to withdraw from the engagement where withdrawal is possible under applicable law or regulation.

[ISA 315 Para. A198-A199]

**Identifying Disclosures where Material Misstatements are Likely to Arise (Limited Assurance) / Identifying and Assessing the Risks of Material Misstatement (Reasonable Assurance)**  
(Ref: Para. 15L, 15R)

A59CR. Risks of material misstatement are assessed on a spectrum ranging from low to high, based on the likelihood of a misstatement occurring and its potential magnitude were it to occur.

A60L. In a limited assurance engagement, the practitioner is not required to identify and assess risks of material misstatement at the assertion level for each disclosure. However, the practitioner may find it useful to use assertions to identify disclosures where material misstatements are likely to arise.

A60R. In identifying and assessing the risks of material misstatement, the practitioner uses assertions to consider the different types of potential misstatements that may occur. Assertions used by the practitioner in considering the different types of potential misstatements that may occur may include the following:

- Occurrence and existence – the sustainability information is related to events or conditions that have occurred or exist.
- Responsibility – the sustainability information pertains to the entity.
- Completeness – all events or conditions that have occurred or exist and pertain to the entity have been included in the sustainability information.
- Accuracy – amounts relating to recorded events or conditions have been recorded appropriately, and information in the related disclosures has been appropriately measured or described.
- Cutoff – information related to events or conditions has been recorded in the correct reporting period and included in the sustainability information for the proper period.
- Classification and understandability – disclosures are appropriately aggregated or disaggregated and presented and described in accordance with the applicable criteria, and are clearly expressed.
- Consistency – quantification policies are consistent with those applied in the prior period, or changes are justified and have been properly applied and adequately disclosed; and comparative information, if any, is as reported in the prior period or has been appropriately restated.

A61. [PLACEHOLDER: for application material and examples of the use of assertions]

A62L. The practitioner's understanding of the system of internal control helps the practitioner identify disclosures for which material misstatements are likely to arise.

*Evaluating the Evidence Obtained from the Risk Procedures* (Ref: Para. 17R-18R 19L, 19R)

A62R. The practitioner's evaluation of the components of internal control and understanding of control activities, along with any control deficiencies identified, may:

- (a) Influence the identification and assessment of risks of material misstatement at the assertion level for each disclosure; and

- (b) Indicate risks of material misstatement that may affect many assertions or disclosures, and thus may be a risk of material misstatement for the sustainability information as a whole.

[ISA 315 (Revised 2019) Para. A196]

A62AR. If the practitioner identifies risks of material misstatement that affect many assertions or disclosures, and thus may be a risk of material misstatement of the sustainability information as a whole, [Part 7 paragraph 12R] requires the practitioner to design and implement overall responses to address this risk.

A63R. When making assertions about the sustainability information of public sector entities, management may often assert that the entity is in compliance with law, regulation or other authority. Such assertions may fall within the scope of the engagement. [ISA 315 (Revised 2019) Para. A193]

## Part 7: Responding to Risks of Material Misstatement

### Responding to the Risks of Material Misstatement (Ref: Para. 1L, 1R and 2)

- A1. The planned nature, timing and extent of the procedures the practitioner considers are needed to obtain sufficient appropriate evidence as the basis for a conclusion on the sustainability information is influenced by the circumstances of the limited assurance engagement, including the information needs of intended users as a group, the criteria, and the underlying subject matter of the engagement. The higher the identified likelihood of material misstatement, and the greater the level of assurance the practitioner seeks to obtain, the more persuasive the evidence needed.
- A2. The higher the assessed risk of material misstatement, the more persuasive the evidence needed. To obtain more persuasive evidence, the practitioner may increase the quantity of the evidence, or obtain evidence that is more relevant or reliable, for example, by obtaining corroborating evidence from a number of independent sources. [ISAE 3410 Para. A97]
- A3. Consideration of the reasons for identifying disclosures where material misstatements are likely to arise assists the practitioner in designing and performing further procedures that are focused on those disclosures. Such reasons may include:
- The inherent nature of the underlying subject matter or judgment in its measurement or evaluation—. For example, a material misstatement may be more likely to arise in a disclosure where mass balance calculations are involved than when water consumption is read directly from a meter.
  - The complexity of the organization, its ownership and control arrangements, or its geographical spread.
  - Systems and processes that are less automated or still developing, such that there may be a greater likelihood of human error, processing flaws or opportunity for unauthorized intervention.
  - Incentives to misstate; for example, if a particular target performance has to be met to retain a license to operate or to avoid fines.
- A4. Consideration of the reasons for the assessment given to the risk of material misstatement at the assertion level for each disclosure assists the practitioner in designing and performing further procedures that are responsive to those risks. Such reasons may include:

- Inherent limitations in the capabilities of measuring devices (e.g., water meters) or insufficient frequency of their calibration.
- Errors or inappropriate judgments made in measuring, evaluating or disclosing the subject matter information, including in the assumptions used in making estimates, the use of inaccurate or incomplete base data on which estimates are based, or in circumstances when complex calculations are involved (e.g., when a mass balance approach is used to calculate water abstracted).
- The risk that unidentified aspects of the underlying subject matter may be missed, for example because of events or transactions outside of the normal course of business, because the preparer relies on a third party for information (e.g., external meter readers or engineering firms to calculate water abstracted), or because of undetected water or wastewater leaks or similar.
- How weaknesses in the design of controls or the ineffective operation of controls might give rise to errors, processing flaws or opportunity for unauthorized intervention.

A5. Part 4, paragraph A2 describes the types of procedures the practitioner may perform. In addition, to inquiries, further procedures may include, for example:

- Substantive analytical procedures when there is a relationship between the subject matter information and other relevant information such that the practitioner may be able to develop an expectation and compare that expectation with the actual subject matter information.
- Tests of detail, for example:
  - Agreeing emissions factors to appropriate sources (for example, government publications), and considering their applicability in the circumstances.
  - Reviewing joint venture agreements and other contracts relevant to determining the entity's organizational boundary.
  - Reconciling recorded data to, for example, odometers on vehicles owned by the entity.
  - Reperforming calculations and reconciling differences noted.
  - Sampling and independently analyzing the characteristics of materials such as coal, or observing the entity's sampling techniques and reviewing records of laboratory test results.
  - Checking the accuracy of calculations and the suitability of calculation methods used.
  - Agreeing recorded data back to source documents, such as production records, fuel usage records, and invoices for purchased energy.

[ISAE 3410 Para. A94]

A6. Further procedures may include tests of the operating effectiveness of controls or tests of detail when, for example, the practitioner, through the understanding of the entity and its environment and its internal control, has identified:

- An increased focus of users on a topic or aspect of a topic
- The lack of a relationship between the sustainability information and other relevant information that excludes the performance of analytical procedures

- A control environment in which the entity does not demonstrate behavior consistent with a commitment to integrity and ethical values
  - Risks of material misstatement in an area that have been identified by the entity's risk assessment process
  - Information systems that are not appropriate to the circumstances of the entity
  - A lack of maturity in the underlying subject matter or the information systems used to develop the sustainability information.
  - Errors in the area in the past
  - A new area, topic or aspect of a topic
- A7. As explained in Part 5 paragraph A8, because the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the further procedures the practitioner performs in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. The differences between the practitioner's further procedures for a reasonable assurance engagement and a limited assurance engagement on sustainability information may include:
- (a) The emphasis placed on the nature of procedures as a source of evidence will likely differ, depending on the engagement circumstances. For example, the practitioner may judge it to be appropriate in the circumstances of a particular limited assurance engagement to place relatively greater emphasis on inquiries of the entity's personnel and analytical procedures, and relatively less emphasis, if any, on tests of controls and obtaining evidence from external sources than may be the case for a reasonable assurance engagement.
  - (b) In a limited assurance engagement, the further procedures performed are less than in a reasonable assurance engagement. This may involve:
    - Selecting fewer items for examination;
    - Performing fewer procedures (for example, performing only analytical procedures in circumstances when, in a reasonable assurance engagement, both analytical procedures and tests of detail would be performed); or
    - Performing procedures on location at fewer facilities.
  - (c) In a reasonable assurance engagement, substantive analytical procedures performed in response to assessed risks of material misstatement involve developing expectations of quantities or ratios that are sufficiently precise to identify material misstatements. In a limited assurance engagement, analytical procedures may be designed to support expectations regarding the direction of trends, relationships and ratios rather than to identify misstatements with the level of precision expected in a reasonable assurance engagement.
- In addition, when undertaking analytical procedures in a limited assurance engagement the practitioner may, for example:
- Use data that is more highly aggregated, for example, data at a regional level rather than at a facility level, or monthly data rather than weekly data.

- Use data that has not been subjected to separate procedures to test its reliability to the same extent as it would be for a reasonable assurance engagement.  
[ISAE 3410 Para. A90]

A8. The risk of not detecting fraud or suspected fraud or non-compliance or suspected non-compliance with law or regulation is higher than the risk of not detecting one resulting from error. Furthermore, the risk of not detecting fraud or suspected fraud or non-compliance or suspected non-compliance with law or regulation is higher in a limited assurance engagement than in a reasonable assurance engagement. The appropriate response to fraud or suspected fraud or non-compliance or suspected non-compliance with law or regulation is dependent on the circumstances. (Ref: Para. 2)

A9. In responding to fraud or suspected fraud identified during the engagement, it may be appropriate for the practitioner to, for example:

- Discuss the matter with the entity.
- Request the entity to consult with an appropriately qualified third party, such as the entity's legal counsel or a regulator.
- Consider the implications of the matter in relation to other aspects of the engagement, including the practitioner's risk
- assessment and the reliability of written representations from the entity.
- Obtain legal advice about the consequences of different courses of action.
- Communicate with third parties (for example, a regulator).
- Withhold the assurance report.
- Withdraw from the engagement.

[ISAE 3410 Para. A106]

#### *Tests of Controls* (Ref: Para. 3-8)

A10. When more persuasive evidence is needed regarding the effectiveness of a control, it may be appropriate to increase the extent of testing of the control. As well as the degree of reliance on controls, matters the practitioner may consider in determining the extent of tests of controls include the following:

- The frequency of the performance of the control by the entity during the period.
- The length of time during the period that the practitioner is relying on the operating effectiveness of the control.
- The expected rate of deviation from a control.
- The relevance and reliability of the evidence to be obtained regarding the operating effectiveness of the control at the assertion level.
- The extent to which evidence is obtained from tests of other controls related to the assertion.

[ISA 330<sup>18</sup> Para. A28]

- A11. Because of the inherent consistency of IT processing, evidence about the implementation of an automated application control, when considered in combination with evidence about the operating effectiveness of the entity's general controls (in particular, change controls), may also provide substantial evidence about its operating effectiveness. [ISA 330 Para A31]
- A12. In certain circumstances, evidence obtained from previous engagements may provide evidence where the practitioner performs procedures to establish its continuing relevance. For example, in performing a previous engagement, the practitioner may have determined that an automated control was functioning as intended. The practitioner may obtain evidence to determine whether changes to the automated control have been made that affect its continued effective functioning through, for example, inquiries of management and the inspection of logs to indicate what controls have been changed. Consideration of evidence about these changes may support either increasing or decreasing the expected evidence to be obtained in the current period about the operating effectiveness of the controls. [ISA 330 Para A35]

*Substantive Procedures* (Ref: Para. 9R-10R, 11)

- A13. In some circumstances, because of the engagement circumstances, more persuasive evidence is needed as the basis for a conclusion on the sustainability information. In such circumstances, it may be appropriate to increase the quantity of the evidence or obtain evidence by performing substantive procedures. For example, the practitioner may obtain evidence from a number of independent sources.
- A14. To obtain more persuasive evidence because of a higher assessment of risk of material misstatement, the practitioner may increase the quantity of the evidence, or obtain evidence that is more relevant or reliable, for example, by obtaining evidence from a number of independent sources. [ISAE 3410 Para. A97]
- A15. External confirmation procedures may provide relevant evidence about such information as:
- Activity data collected by a third party
  - Industry benchmark data used in calculations.
  - The terms of agreements, contracts, or transactions between the entity and other parties, or information about whether other parties are considered within the entity's organizational boundary.
  - The results of laboratory analysis of samples.
- [ISAE 3410 Para. A99]
- A16. In most cases, evidence from a previous engagement's substantive procedures provides little or no evidence for the current period. There are, however, it may be appropriate to use evidence from a previous engagement's substantive procedures if that evidence and the related subject matter have not fundamentally changed, and procedures have been performed during the current period to establish its continuing relevance. [ISA 330 Para A54]

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<sup>18</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

A17. In some circumstances, the practitioner may determine that it is effective to perform substantive procedures at an interim date, and to compare and reconcile information concerning the balance at the period end with the comparable information at the interim date to:

- (a) Identify amounts that appear unusual;
- (b) Investigate any such amounts; and
- (c) Perform substantive analytical procedures or tests of details to test the intervening period.

[ISA 330 Para A55]

A18. Performing substantive procedures at an interim date without undertaking additional procedures at a later date increases the risk that the practitioner will not detect misstatements that may exist at the period end. This risk increases as the remaining period is lengthened. Factors such as the following may influence whether to perform substantive procedures at an interim date:

- The control environment and other relevant controls.
- The availability at a later date of information necessary for the practitioner's procedures.
- The purpose of the substantive procedure.
- The assessed risk of material misstatement.
- The nature of the class of transactions or account balance and related assertions.
- The ability of the practitioner to perform appropriate substantive procedures or substantive procedures combined with tests of controls to cover the remaining period in order to reduce the risk that misstatements that may exist at the period end will not be detected.

[ISA 330 Para A56]

Overall Responses (Ref: Para. 12R)

A19. It is possible that the risk of material misstatement may arise in multiple disclosures in the sustainability information; therefore, the practitioner may design and perform overall procedures that focus on disclosures where risks of material misstatements are likely to arise pervasively in the sustainability information.

A20. Overall responses may include:

- Conducting more procedures as of the period end rather than at an interim date.
- Obtaining more extensive evidence from procedures other than tests of controls.
- Increasing sample sizes and the extent of procedures, such as the number of facilities at which procedures are performed.

[ISAE 3410 Para. A92]

A21. When performing further procedures focused on multiple disclosures in the sustainability information, the practitioner may consider whether the completeness and accuracy of the information produced by the entity is sufficient to perform substantive analytical procedures.

A22. In the case of very small entities or entities that are in early stages of the development of information systems, or less complex entities, there may not be many control activities that could be identified by the practitioner, or the extent to which their existence or operation have been documented by the entity may be limited. In such cases, it may be more efficient for the practitioner to perform further procedures that are primarily other than tests of controls. In some rare cases, however, the absence of control activities or of other components of control may make it impossible to obtain sufficient appropriate evidence. [ISAE 3410 Para. 41R]

*Substantive Analytical Procedures* (Ref: Para. 13L-14L, 13R-14R)

A23. In many cases, disclosures and other information allows for the design of powerful analytical procedures (for example, the relationship between fuel consumption and carbon dioxide and nitrous oxide emissions). [ISAE 3410 Para. A100]

A24. Similarly, a reasonably predictable relationship may exist between the sustainability information and financial or operational information (for example, the relationship between Scope 2 emissions from electricity and the general ledger balance for electricity purchases or hours of operation). Other analytical procedures may involve comparisons of information about the entity's sustainability information with external data such as industry averages; or the analysis of trends during the period to identify anomalies for further investigation, and trends across periods for consistency with other circumstances such as the acquisition or disposal of facilities. [ISAE 3410 Para. A101]

A25. Analytical procedures may be particularly effective when disaggregated data is readily available, or when the practitioner has reason to consider the data to be used is reliable, such as when it is extracted from a well-controlled source. In some cases, data to be used may be captured by the financial reporting information system or may be entered in another information system in parallel with the entry of related financial data, and some common input controls applied. For example, the quantity of fuel purchased as recorded on suppliers' invoices may be input under the same conditions that relevant invoices are entered into an accounts payable system. In some cases, data to be used may be an integral input to operational decisions and therefore subject to increased scrutiny by operational personnel, or subject to separate external procedures (for example, as part of a joint venture agreement or oversight by a regulator). [ISAE 3410 Para. A102]

**Determining Whether Additional Procedures Are Necessary in a Limited Assurance Engagement**

(Ref: Para. 18L)

A26. When significant fluctuations, relationships or differences are identified using analytical procedures, appropriate evidence in a limited assurance engagement may be obtained by making inquiries of the entity and considering responses received in the light of known engagement circumstances.

[ISAE 3410.43L]

A27. The practitioner may become aware of misstatements that are, after applying professional judgment, clearly not indicative of the existence of material misstatements. Additional procedures may not be needed when, in the practitioner's professional judgment, the identified misstatements are not clearly indicative of the existence of material misstatements. [ISAE 3000 Para.A114]

- A28. If, having performed the additional procedures required by paragraph 18L, the practitioner is not able to obtain sufficient appropriate evidence to either conclude that the matter(s) is not likely to cause the subject matter information to be materially misstated or determine that it does cause the subject matter information to be materially misstated, a scope limitation exists and Part 8 paragraph 28 applies. [ISAE 3000 Para.A117]
- A29. The practitioner's judgment about the nature, timing and extent of additional procedures that are needed to obtain evidence to either conclude that a material misstatement is not likely, or determine that a material misstatement exists, is, for example, guided by:
- Information obtained from the practitioner's evaluation of the results of the procedures already performed;
  - The practitioner's updated understanding of the underlying subject matter and other engagement circumstances obtained throughout the course of the engagement; and
  - The practitioner's view on the persuasiveness of evidence needed to address the matter that causes the practitioner to believe that the subject matter information may be materially misstated.

[ISAE 3000 Para.A118]

## Specific Focus Areas

*Estimates, Including Forward-Looking Information* (Ref: Para. 19L, 19R-20R)

- A30. In some cases, it may be appropriate for the practitioner to evaluate how the entity has considered alternative assumptions or outcomes, and why it has rejected them. [ISAE 3410 Para. A103]
- A31. In some limited assurance engagements, it may be appropriate for the practitioner to undertake one or more of the procedures identified in paragraph 19L. [ISAE 3410 Para. A104]

*The Process for Assembling the Sustainability Information* (Ref: Para. 21L, 21R)

- A32. The process to assemble the sustainability information may be very informal when the entity's information systems are immature. In more sophisticated systems, the process may be more systematic and formally documented. The nature, and also the extent, of the practitioner's procedures with respect to adjustments and the manner in which the practitioner agrees or reconciles the sustainability information with the underlying records depends on the nature and complexity of the entity's quantifications and reporting process and the related risks of material misstatement. [ISAE 3410 Para. A108]

## Part 8: Concluding

### Accumulation and Consideration of Identified Misstatements

*Accumulation of Identified Misstatements* (Ref: Para. 1)

- A1. The practitioner is required to accumulate misstatements identified during the engagement other than those that are clearly trivial. "Clearly trivial" is not another expression for "not material." Misstatements that are clearly trivial are of a wholly different (smaller) order of magnitude, or of a wholly different nature than those that would be determined to be material, and are misstatements that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of

size, nature 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. [ISA 450<sup>19</sup> Para. A2]

- A2. For quantitative amounts, the practitioner may designate an amount below which misstatements would be clearly trivial and would not need to be accumulated because the practitioner expects that the accumulation of such amounts clearly would not have a material effect on the sustainability information. [ISAE 3000 (Revised) Para. A120]
- A3. Clearly trivial may be considered in the context of the impact of the misstatement on the intended users' decisions. As explained in paragraph A20 of Part 5, intended users may include users who may use sustainability information to make resource allocation decisions, or users who may be interested in the impact of the entity. The applicable criteria may include principles to assist the entity in identifying information relevant to users, and which may provide a frame of reference for the practitioner in considering materiality.
- A4. Misstatements in sustainability information may arise through:
- (a) An inaccuracy in gathering or processing information used to prepare the sustainability information;
  - (b) Manipulating or obscuring the sustainability information in a manner that would be misleading to the intended users;
  - (c) Management's judgments involving estimates being considered unreasonable by the practitioner;
  - (d) The inclusion of inappropriate information, for example, information that should not be included in accordance with the applicable criteria or that obscures or distorts sustainability information that is required by the applicable criteria;
  - (e) The inclusion of information that is not supported by sufficient appropriate evidence.
  - (f) The omission of sustainability information required by the applicable criteria, for example, sustainability information relating to a significant subsequent event that would likely change the decisions of users but has not been adequately disclosed;
  - (g) Sustainability information that, in the practitioner's judgment, is:
    - (i) Ambiguous; or
    - (ii) Capable of being determined precisely, but is presented in a vague manner;
  - (h) Changes since the previous reporting period to the sustainability information without reasonable justification for doing so or without disclosing the reasons for doing so;
  - (i) The manner in which the sustainability information is presented. For example, it may be presented:
    - (i) Out of context, in an imbalanced manner, or given greater or lesser prominence than is warranted, based on the available evidence and applicable criteria.

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<sup>19</sup> ISA 450, *Evaluation of Misstatements Identified during the Audit*

- (ii) Using superlatives and adjectives that describe a more positive outcome than is factually correct.
- (j) Inappropriately drawing conclusions, based on selective information, for example, through statements such as the following:
  - (i) “A large number of companies worldwide,” based on information for only a hundred companies; although a hundred may be large, it is not large compared to the number of companies in the world.
  - (ii) “The numbers have doubled since last year” may be factual, but a small base giving rise to this doubling may not be disclosed.

**[ISA 450 Para. A1 and EER Para. 342]**

- A5. Determining whether there is a misstatement may require professional judgment. Some framework criteria may allow the entity to omit information, explain what information has been omitted and why. For example, the entity may be permitted to omit information if a requirement is not applicable, information is unavailable or incomplete, there are legal prohibitions, or confidentiality constraints. In such cases, the omitted information may not be a misstatement. The practitioner may discuss the omission, and the reasons for it, with those charged with governance before concluding whether the omission is a misstatement. A relevant factor when evaluating whether an omission of a disclosure is a misstatement is whether the sustainability information is misleading in the context of the engagement without the disclosure. For example, whether the disclosures omit information needed to understand, compare, and use the sustainability information.
- A6. **[Moved to A15A]**
- A7. The sustainability information may include a description of the entity's processes, systems or controls regarding the underlying subject matter (e.g., the entity's process to identify, assess, and manage current and anticipated sustainability-related risks and opportunities). The scope of the assurance engagement may require the practitioner to conclude:
- (a) Whether the description of the entity's process, systems or controls fairly presents the design and implementation of those processes, systems or controls;
  - (b) Whether the entity's processes, systems or controls are suitable, or operated effectively throughout the period; or
  - (c) A combination of both.

The scope of the assurance engagement, and resulting conclusion in the assurance report, may depend on factors such as the applicable criteria, law, regulation or professional requirements, or the agreed terms of engagement. What constitutes a misstatement in these circumstances depends on the scope of the engagement. For example:

- (a) The scope of the engagement includes whether the entity's processes, systems or controls are suitable and operated effectively throughout the period: If the practitioner determines that the entity's description of the processes, systems or controls inaccurately implies that it is suitably designed or operated effectively throughout the period, this may constitute a misstatement.

- (b) The scope of the engagement does not include whether the entity's processes, systems or controls are suitable and operated effectively throughout the period: If the practitioner is aware that the entity's description of its processes, systems or controls inaccurately implies that it is suitably designed or operated effectively throughout the period, the practitioner may need to consider whether the disclosure could influence the decisions of intended users. The practitioner may discuss the matter further with management and where appropriate, those charged with governance and request them to amend the disclosure. If the disclosure is not amended, the practitioner may consider:
  - (i) The implications for the conclusion, if any; and
  - (ii) The practitioner's responsibilities under relevant ethical requirements regarding association with misleading information.

Remaining Alert for Possible Misstatements Due to Fraud (Ref: Para. 2)

- A8. As discussed in [Part 3] of this ISSA, the practitioner is required to determine whether the criteria are suitable. If the criteria are vague and allow manipulation of the sustainability information, then the criteria may not be suitable. However, if the criteria are determined to be suitable but management intentionally did not apply the criteria appropriately, it may be an indication of misstatement due to fraud.
- A9. Misstatements due to fraud may result from intentional:
- (a) Manipulation, falsification, or alteration of information or supporting documentation from which the sustainability information is prepared.
  - (b) Misrepresentation in, or omission from, the sustainability information.

Examples of misstatement due to fraud in sustainability information include:

- (i) Misstating sustainability information to avoid penalties or fines.
- (ii) Intentionally inaccurate or misleading public statements or claims that will favorably impact share price or an assessment of the entity's sustainability credentials.
- (iii) Intentionally reporting sustainability information relating to performance or compensation incentives in a biased way to influence the outcome of the performance reward or compensation.
- (iv) Emphasizing a product was produced using recycled materials but not report that the product was produced using forced labor.
- (v) Intentionally reporting topics for which the entity has positive impacts and omitting topics for which the entity has negative impacts.
- (vi) Misstating baseline information to make sustainability information look more favorable in subsequent periods.
- (vii) Misstating sustainability information associated with specific project milestones, budget approval, or rights to access certain markets or begin projects in certain markets or geographies.

[ISA 240 Para. A3 and EER Para. 312]

- A10. If the practitioner identifies a misstatement that is indicative of fraud, this may have implications in relation to other aspects of the assurance engagement, particularly:
- (a) The practitioner's identification of the disclosures where material misstatements due to fraud are likely to arise (in a limited assurance engagement), or the practitioner's identification and assessment of risks of material misstatement due to fraud at the assertion level for each disclosure (in a reasonable assurance engagement), and the resulting effect on the nature, timing and extent of further procedures;
  - (b) The reliability of management representations, recognizing that an instance of fraud is unlikely to be an isolated occurrence.

[ISA 240 Para. 36-37]

*Consideration of Identified Misstatements as the Engagement Progresses* (Ref: Para. 3)

- A11. The practitioner may also consider whether accumulated misstatements relate to control deficiencies. Specifically, the practitioner may consider whether the nature or extent of the accumulated misstatements cause the practitioner to change the practitioner's understanding of the entity's system of internal control relevant to the preparation of the sustainability information (see Part 6 paragraphs 8L and 8R). [EER Para. 314]

*Communicating and Correcting Misstatements* (Ref: Para. 5-6)

- A12. In the case of narrative sustainability information, asking management to correct a misstatement may involve management either re-wording or removing the misstated text. [EER Para. 352]
- A13. The practitioner's understanding of management's reasons for not making the corrections may indicate possible bias in management's judgments. [ISA 450 Para. A13]

*Evaluating the Effect of Uncorrected Misstatements* (Ref: Para. 8)

- A14. Uncorrected misstatements are accumulated during the engagement for the purpose of determining whether, individually or in the aggregate, they are material when forming the practitioner's conclusion. [ISAE 3000 (Revised) Para A119]
- A15. Determining whether uncorrected misstatements are material involves professional judgment in the context of the applicable criteria and the engagement circumstances, including who the intended users are and what disclosures are likely to be important. [EER Para. 346]
- A15A. When the sustainability information is measured using a common measurement basis (e.g., monetary amounts or physical units) the practitioner may be able to accumulate all misstatements together (i.e., as being of the same nature quantitatively and capable of being aggregated). However, the disclosures may relate to multiple topics, may comprise several aspects of the topics, and the underlying subject matter may be measured or evaluated using different measurement bases. The practitioner is not required to convert misstatements in different measurement bases into a common base for purposes of accumulating the misstatements and determining whether the sustainability information is materially misstated. [Moved from paragraph A6]

- A16. When the scope of the sustainability assurance engagement is a number of metrics, each relating to a different underlying subject matter, the practitioner may evaluate the materiality of misstatements separately for each metric as intended users may have different tolerances for misstatement in each metric. For example, intended users' tolerance for misstatements is likely to be higher for a disclosure about non-hazardous, degradable waste, than it would be for a disclosure about radioactive or other hazardous waste. [EER Para. 308]
- A17. The sustainability information as a whole may be misstated, even though the misstatements are individually immaterial. Even if there are misstatements that are not able to be accumulated by underlying subject matter or other common factors, they may exhibit a common direction, narrative tone or trend. For example, if the effect of the misstatements is to make the sustainability information as a whole look more favorable than it actually is or all the misstatements overstate the positive aspects of the entity's actions, and downplay the negative aspects, that may add up to give a biased and misleading picture to the users of the sustainability information. [EER Para. 309 and 350]
- A17A. It may be possible, once all non-quantifiable misstatements have been identified, to group them together, for example, by whether they relate, in common, to particular aspects of the underlying subject matter. For example, there may be one or more individually immaterial misstatements in the qualitative statements management has made about occupational health and safety and another immaterial misstatement relating to employee diversity. As occupational health and safety and diversity both relate to the social aspect of sustainability information, the practitioner may be able to group these misstatements together and consider their combined effect on the social dimension of the entity's sustainability information. Similarly, a number of immaterial misstatements in the reported water consumption information and another immaterial misstatement relating to waste generated may be able to be considered together as they both relate to the environmental aspect of the sustainability information. [EER Para. 347]

#### Other Misstatement Considerations

- A18. Materiality of uncorrected statements is considered in the context of qualitative and, when applicable, quantitative factors. The practitioner may also consider the extent to which users could reasonably be expected to make a different decision if the sustainability information was not misstated. Qualitative factors that may indicate that a misstatement is more likely to be material, include:

##### Underlying subject matter

- (a) The misstated sustainability information relates to an aspect of the underlying subject matter that has been determined as being significant.
- (b) There are multiple misstatements related to the same topic of the underlying sustainability matter.
- (c) The direction of the misstatements are all positive or all negative.

##### External factors

- (d) The misstated sustainability information relates to non-compliance with a law or regulation, particularly when the consequence for non-compliance is severe.

- (e) The misstated sustainability information relates to underlying subject matter that has implications for a large number of the entity's stakeholders. However, there may be situations when the underlying subject matter has implications for only a small number of stakeholders but may, nonetheless, have material implications. For example, a small community affected by radioactive contamination of their water supply from effluent from an entity's operations may open a lawsuit which could have a material impact on the entity and its other stakeholders.

#### Nature of the sustainability information

- (f) The misstatements may indicate doubts as to the feasibility of management's plans, or management's claims about the entity's sustainability credentials,. For example, an entity may disclose its strategic response to mitigate sustainability-related risks in accordance with the applicable criteria, but evidence obtained may indicate these strategies are unrealistic, rely on unproven technologies, or require financing that the entity is unlikely able to obtain.
- (g) The misstatement relates to a particular disclosure that is commonly used to compare the entity to its peers.
- (h) The misstatement relates to a target or threshold, and the error significantly impacts whether the target or threshold is met (in some cases the magnitude of the error may be small but may have significant consequences for meeting the target).
- (j) The misstated information is reporting a significant change in a previously reported position, or a trend that has reversed.

#### Presentation

- (j) The misstatement that has arisen from the presentation of the sustainability information being misleading because the wording that has been used lacks clarity such that it could be interpreted in widely different ways. Accordingly, intended users might make different decisions depending on their interpretation.

#### Preparer's behavior

- (k) The misstatement has arisen as a result of fraud by the preparer to mislead intended users.
- (l) The preparer is reluctant to correct the misstatement for reasons other than they consider it immaterial.
- (m) The preparer is reporting aggressive targets or estimates, or is defensive in providing explanations.

#### [EER Para. 315 and 316]

- A19. Misstatements in qualitative information are as important as misstatements in quantitative information. If the misstatements in qualitative information are not corrected by the preparer, the practitioner may accumulate them by listing them, or marking up or highlighting them in a copy of the sustainability information. When it is not possible to add the misstatements together to determine their effect in the aggregate, the practitioner may consider whether there are any commonalities among the misstatements, such as whether the misstatements reflect a more favorable outcome that is collectively material, or indicate management bias. [EER Para. 343]

A20. Other factors that may help the practitioner evaluate materiality of misstatements include understanding:

- The underlying cause of identified misstatements. For example if the qualitative misstatement is because management has intentionally made a decision to misrepresent facts, this is an indicator of fraud and is considered material.

[EER Para. 351]

- Whether a misstatement may have an indirect effect on misstatements identified in other areas of the engagement. For example, an otherwise immaterial overstatement of an item might indirectly affect a more significant calculation that incorporates the item, causing that calculation to fall below the required minimum threshold included in a contractual requirement, or the qualification criteria for a scheme, grant or funding. Similarly, the lack of a required approval for a relatively unimportant transaction might not be material individually, but it could have implications for the operating effectiveness of controls in areas of the sustainability information that users might consider important.

#### Measurement or Evaluation Uncertainty

A21. The underlying subject matter may have inherent measurement or evaluation uncertainty (for example, the estimation of climate-related risks in the long term across the entity's value chain). As a result of inherent uncertainties relating to the underlying subject matter(s) there may be a wide range of possible outcomes and it may be difficult to identify whether there is a material misstatement of the sustainability information. In identifying and evaluating the misstatements, the practitioner may consider whether the underlying subject matter is as precise as is required by the applicable criteria, and the information required by the applicable criteria about the inherent uncertainty is disclosed. Without supporting disclosures to help the intended users understand the uncertainty, the applicable criteria may not be suitable, and the sustainability information may not be presented appropriately. Part 9 paragraph 3(f)(iv) and A18 addresses the appropriate descriptions to be included in the assurance report. [EER Para. 320-321, 365]

A22. When the uncertainty is not inherent (i.e., when it results from lack of appropriate application of the applicable criteria) it may give rise to misstatements. For example, management may not have used appropriate information to measure or evaluate the underlying subject matter that has resulted in it not being as precise as required by the applicable criteria. [EER Para. 322]

A23. Forward-looking information is ordinarily subject to greater measurement, estimation and evaluation uncertainty than historical information. As a result, there may be a broad range of possible outcomes, and it may be difficult to identify and evaluate misstatements, including whether the assumptions are:

- (a) Reasonable, in the case of a forecast; or
- (b) Realistic and in line with the purpose of the information, in the case of projections.

The practitioner may consider ways in which misstatements may arise, for example:

- (i) Data or other information used may not be relevant, complete or reliable;
- (ii) Assumptions may include information that is not relevant, may omit important considerations, may be internally inconsistent, or may be given inappropriate weighting;

- (iii) Assumptions may not be consistent with management's decisions or intent;
- (iv) There may be unintentional or deliberate misapplication of the assumptions to the data or other information, or in calculations of quantifiable information.

In some cases, misstatements may arise as a result of a combination of these circumstances.

[EER Para. 387-389]

A24. The practitioner may also consider whether there are indicators of possible management bias in the selection of assumptions, methods or data in the way in which the sustainability information is presented that may indicate a misstatement, or have implications for the rest of the assurance engagement. For example, when management has:

- (a) Changed the assumptions or methods used, or has made a judgmental assessment that there has been a change in circumstances, without reasonable justification;
- (b) Used assumptions that are inconsistent with observable marketplace assumptions; or
- (c) Selected significant assumptions that favor management's objectives, or that may indicate a pattern or trend.

[EER Para. 390-391]

#### **Evaluating the Description of Applicable Criteria (Ref: Para. 9)**

A25. The preconditions for an assurance engagement to be present under Part 3 paragraph 2 require that the criteria that the practitioner expects to be applied in the preparation of the sustainability information be available to the intended users. This may be done by references to a description of the applicable criteria, which is available to the intended users, or the inclusion of a description of the applicable criteria and the sources of those criteria in the sustainability information, to enable intended users to understand how:

- (a) The content of the sustainability information, such as the topics and aspects of the topics, has been identified and selected;
- (b) The intended users' information needs were identified; and
- (c) The underlying subject matter has been measured, evaluated, presented and disclosed.

[ISAE 3410 Para. A131]

A26. Framework criteria may need to be supplemented by entity-developed criteria, or the entity may need to develop criteria to interpret the framework. The intended user is unlikely to be able to consider whether their needs have been met or to be able to base decisions on the sustainability information without access to both the framework criteria and any entity-developed criteria supplementing or interpreting the framework criteria. [EER Para. 216-220]

A27. Referencing or describing the applicable criteria and their sources is particularly important when:

- (a) There are significant differences between criteria applied by equivalent entities.

- (b) The underlying subject matter is subject to a high degree of measurement or evaluation uncertainty, such as forward-looking sustainability information, as there may be more variability, or it may be open to greater interpretation than when there is less uncertainty. This may result in sustainability information that could be misunderstood or misinterpreted by intended users.

[ISAE 3410 Para. A131 and EER Para. 393]

A28. In evaluating whether the reference or description of the criteria is adequate, the practitioner may consider whether it addresses:

- (a) The source of the applicable criteria, and whether the applicable criteria are framework criteria embodied in law or regulation or issued by authorized or recognized bodies of experts that follow a transparent due process, or entity-developed criteria.
- (b) How framework criteria have been applied.
- (c) For entity-developed criteria, how the determination was made that these, together with any framework criteria, are suitable.
- (d) When applicable framework criteria were not applied, the reasons therefore.
- (e) The specific aspects of the criteria related to particular types of sustainability information, for example:
  - (i) The basis for evaluating the reasonableness of the underlying assumptions for forward-looking information.
  - (ii) Control objectives for design and operating effectiveness of processes, systems or controls.
  - (iii) Targets, key performance indicators, commitments or goals for evaluating or measuring performance.
- (f) Measurement or evaluation methods used when the applicable criteria allow for choice between a number of methods.
- (g) Any significant judgments made in applying the applicable criteria in the engagement circumstances.
- (h) The inherent limitations, if any, associated with the measurement or evaluation of the underlying subject matter against the applicable criteria.
- (i) Other matters relevant to intended users understanding of the basis for the preparation of the sustainability information, including uncertainties.
- (j) Any changes in the measurement or evaluation methods used, and the reasons therefore.
- (k) Any deviations from the applicable criteria identified, for example, deviations from a framework that the entity has referred to as being the basis for preparing the sustainability information.

[ISAE 3410 Para. A131-133 and A165; EER Para. 216-220]

A29. The preconditions for an assurance engagement to be present under Part 3 paragraph 2 require the criteria that the practitioner expects to be applied in the preparation of the sustainability information be suitable. In determining whether the criteria referenced or described in the sustainability information exhibit the characteristics of suitable criteria under Part 3 paragraph 5(b), the engagement leader may consider whether the criteria are presented in a clear manner, providing sufficient detail and clarity to be understandable.

**Subsequent Events** (Ref: Para. 10-11)

A30. Subsequent events may include, for example:

- The publication of revised factors, assumptions or benchmarks by a body such as a government agency (e.g., revised emissions factors),
- Changes to relevant legislation or regulations,
- Significant improved scientific knowledge,
- Significant structural changes in the entity,
- The availability of more accurate quantification methods,
- The discovery of a significant error [ISAE 3410 Para A117]
- Water pollution resulting in loss of license, or
- Fatality and injury events.

[ISAE 3000 Para. 61, A141–A142, ISAE 3410 Para. 61, A117]

A31R. The procedures performed by the practitioner in accordance with paragraph 1 for the period from the date of the sustainability information to the date of the assurance report, or as near as practicable thereto, may include:

- (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 sustainability information.
- (c) Reading minutes of meetings of the owners, those charged with governance and management held after the date of the sustainability information and inquiring about matters discussed at any such meetings for which minutes are not yet available.
- (d) Reading the entity's monthly or quarterly sustainability information, if available.

[LCE Para. 8.4.1]

A31L. The procedures performed by the practitioner in accordance with paragraph 10 for the period from the date of the sustainability information to the date of the assurance report, or as near as practicable thereto, may include inquiring of management, and where appropriate, those charged with governance, as to whether any subsequent events have occurred that may affect the sustainability information. [LCE Para. 8.4.1] The extent of consideration of subsequent events depends on the potential for such events to affect the sustainability information and to affect the appropriateness of the practitioner's conclusion. [ISAE 3000 Revised Para. 61]

- A32. The practitioner has no responsibility to perform any procedures regarding the sustainability information after the date of the assurance report. However, if, after the date of the assurance report, a fact becomes known to the practitioner that, had it been known to the practitioner at the date of the assurance report, may have caused the practitioner to amend the report, the practitioner may need to discuss the matter with the management or those charged with governance or take other action as appropriate in the circumstances. [ISAE 3000 Revised Para A142]

**Written Representations from Management and Those Charged with Governance (Ref: Para. 12)**

- A33. [Not used]

- A34. Written confirmation of oral representations reduces the possibility of misunderstandings between the practitioner and management, and where appropriate, those charged with governance. The person(s) from whom the practitioner requests written representations will ordinarily be a member of senior management or those charged with governance depending on, for example, the management and governance structure of the entity, which may vary by jurisdiction, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics.

[ISAE 3000 Para. A137]

- A35. Representations by the management and, where appropriate, those charged with governance cannot replace other evidence the practitioner could reasonably expect to be available. Although written representations provide necessary evidence, they do not provide sufficient appropriate evidence on their own about any of the matters with which they deal. Furthermore, the fact that the practitioner has received reliable written representations does not affect the nature or extent of other evidence that the practitioner obtains. [ISAE 3000 Para. A139]

**Other Information**

*Obtaining the Other Information (Ref: Para. 18)*

- A36. As explained in Part 8 paragraph 18, the entity may plan to issue sustainability information as part of a document or documents (e.g., an annual report or integrated report) that contain information other than the sustainability information. In addition, some sustainability information issued by the entity may not be within the scope of the assurance engagement and therefore not covered by the assurance report. The objective of the required discussion with management is to help the practitioner understand the entirety of the information the entity expects to issue, that will include the sustainability information within the scope of the assurance engagement, to be able to identify the other information required to be read and considered in accordance with Part 8 paragraph 19.
- A37. If the other information is materially inconsistent with the sustainability information subject to the assurance engagement or the practitioner's knowledge obtained in the engagement, it may indicate that there is a material misstatement of the sustainability information or that a material misstatement of the other information exists. This may undermine the credibility of the sustainability information and the assurance report thereon. Such material misstatements may also inappropriately influence the decisions of the users for whom the assurance report is prepared. The practitioner procedures with respect to other information may also assist the practitioner in complying with relevant ethical requirements as required by Part 2 paragraph 1. Relevant ethical requirements require the practitioner to avoid being knowingly associated with information that the practitioner believes contains a materially false or misleading statement, statements or information provided recklessly, or

omits or obscures required information where such omission or obscurity would be misleading. [ISA 720<sup>20</sup> Para.3-4]

A38. As frameworks and practices for reporting sustainability information may be evolving and new laws and regulations may be imposed over time, the location of the sustainability information and the content of the report(s) in which that information is included may change between periods. As a result it may not be clear which document(s) comprises the report in which the sustainability information will be published. As management, or those charged with governance, is responsible for preparing the entity's reports, the practitioner may communicate with management or those charged with governance, the practitioner's expectations in relation to obtaining the final version of the report(s) which will contain the sustainability information in a timely manner prior to the date of the assurance report such that the practitioner can complete the procedures required by this ISSA before the date of the assurance report. [ISA 720 Para. A13]

A39. Sustainability information subject to the assurance engagement may be included as part of an entity's management report, annual report or integrated report, or included with other governance information such as:

- A strategic analysis, including a statement about the impact sustainability matters have on the entity's strategic objectives.
- An explanation and qualitative assessment of current and anticipated significant risks and opportunities associated with sustainability topics.
- Disclosures about the entity's actions, including its long-term and short-term plan to address sustainability-related risks, opportunities and impacts on the entity or to address the entity's impacts on sustainability matters.
- Disclosures about future outlook, including trends and factors related to sustainability that are likely to affect the entity's strategy or the timescale over which achievement of the strategy is planned.
- A description of governance processes and the entity's resources that have been assigned to the identification, management and oversight of sustainability-related issues.

[ISAE 3410 Para. 124]

A40. When other information is only made available to users via the entity's website, the final version of the other information obtained from the entity, rather than directly from the entity's website, is the relevant document on which the practitioner would perform procedures in accordance with this ISSA. The practitioner has no responsibility under this ISSA to search for other information, including other information that may be on the entity's website. In addition, the practitioner has no responsibility to perform any procedures to confirm that other information is appropriately displayed on the entity's website or otherwise has been appropriately transmitted or displayed electronically, unless this is within the scope of the assurance engagement. [ISA 720 Para.A19]

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<sup>20</sup> ISA 720, *The Auditor's Responsibilities Relating to Other Information*

*Reading and Considering the Other Information* (Ref: Para. 19)

A41. When considering the consistency of the other information with the sustainability information, the practitioner may compare selected disclosures in the other information (that are intended to be the same as, to summarize, or to provide greater detail about, the disclosures in the sustainability information assured) with disclosures in the sustainability information. However, the practitioner is not required to compare all disclosures in the other information that are intended to be the same as, to summarize, or to provide greater detail about, the disclosures in the sustainability information, with such disclosures in the sustainability information. Selecting the disclosures to compare is a matter of professional judgment. Factors relevant to this judgment include:

- The significance of the disclosure in the context in which it is presented, which may affect the importance that users would attach to the amount or other item.
- If quantitative, the relative size of the amount compared with the disclosure in the sustainability information or the other information to which they relate.
- The sensitivity of the particular disclosure in the other information.

[ISA 720 Para.14, A26, A27]

*Responding When the Practitioner Concludes That a Material Misstatement of the Other Information Exists* (Ref: Para. 21)

A42. The practitioner has no obligation to perform any procedures regarding the other information that becomes available after the date the assurance report. However, the practitioner may become aware that a material inconsistency appears to exist between the other information available after the date of the assurance report and the sustainability information or the practitioner's knowledge obtained in the engagement. The practitioner may discuss the matter with management or those charged with governance, as appropriate, and if the other information is not corrected take appropriate action. This may include performing other procedures to conclude whether a material misstatement of the other information or of the sustainability information exists. If the practitioner concludes that a material misstatement exists, but the other information is not corrected, the practitioner may seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the practitioner's report is prepared, considering the practitioner's legal rights and obligations.

[ISA 720 Para.19]

*Responding When a Material Misstatement in the Sustainability Information Exists or the Practitioner's Understanding of the Entity and Its Environment Needs to Be Updated* (Ref: Para. 23)

A43. In reading the other information, the practitioner may become aware of new information that has implications for:

- The practitioner's understanding of the entity and its environment and, accordingly, may indicate the need to revise the practitioner's risk consideration or assessment.
- The practitioner's responsibility to evaluate the effect of identified misstatements on the engagement and of uncorrected misstatements, if any, on the sustainability information.
- The practitioner's responsibilities relating to subsequent events.

[ISA 720 Para. A51]

**Forming the Assurance Conclusion** (Ref: Para. 24-26)

*Evaluating the Evidence Obtained* (Ref: Para. 24-25)

A44. An assurance engagement is an iterative process, and information may come to the practitioner's attention that differs significantly from that on which the determination of planned procedures was based. This may particularly be the case when the entity's information system is less mature or when the disclosures, and their characteristics, are subject to greater judgment. As the practitioner performs planned procedures, the evidence obtained may cause the practitioner to perform additional procedures to meet the intended purpose(s) in performing those procedures. In some circumstances, the practitioner may not have obtained the evidence that the practitioner had expected to obtain through the planned procedures. When the practitioner determines that the evidence obtained from the procedures performed is not sufficient and appropriate to be able to form a conclusion on the sustainability information, the practitioner may:

- (a) Extend the work performed; or
- (b) Perform other procedures judged by the practitioner to be necessary in the circumstances.

When neither of these is practicable in the circumstances, the practitioner will not be able to obtain sufficient appropriate evidence to be able to form a conclusion. [Moved from Part 4 para. A46]

[ISAE 3000 (Revised) Para. A113 and A153]

A45. A procedure may be designed to be effective in achieving an intended purpose, but if the performance or execution of the procedure (i.e., its application) is inappropriate the purpose of the procedure may not be met. Part 2 of this ISSA addresses the specific responsibilities of the practitioner regarding quality management at the engagement level, and the related responsibilities of the engagement leader, which may affect the application of procedures. In addition, Part 2 explains that the review of the engagement team's work consists of considering whether, for example:

- (a) The evidence obtained is sufficient and appropriate to provide a basis for the practitioner's assurance conclusion; and
- (b) The objectives of the procedures have been achieved. [Moved from Part 4 para. A47]

[ED-500 Para. A88]

A46. The practitioner performs procedures on the work of a practitioner's expert, another practitioner or the internal audit function in obtaining sufficient appropriate audit evidence, including performing procedures to evaluate the adequacy of the work for the practitioners purpose. The following matters may be relevant when evaluating the adequacy of a practitioner's expert's or another practitioner's work for the practitioner's purpose:

- (a) The relevance and reasonableness of the findings or conclusions from that work, and their consistency with other evidence;
- (b) If that work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and
- (c) If that work involves the use of source data that is significant to the work, the relevance, completeness, and accuracy of that source data.

[ISAE 3000 Para. A134]

A47. When evaluating the work of another practitioner, the practitioner may consider whether, and the extent to which, it is possible to review the other practitioner's documentation of identified risks of material misstatement, responses to those risks, and conclusions. Such documentation may take the form of a memorandum that reflects the other practitioner's conclusion with regard to the identified risks. [ISAE 3410 Para. A115]

A48. If the practitioner determines that the work of a practitioner's expert or another practitioner is not adequate for the practitioner's purposes, options available to the practitioner include:

- (a) Agreeing with that expert or another practitioner on the nature and extent of further work to be performed; or
- (b) Performing additional procedures appropriate to the circumstances.

[ISAE 3000 Para. A135]

A49. While paragraphs A47 and A48 have been written in the context of using work performed by a practitioner's expert or another practitioner, they may also provide helpful guidance with respect to using work performed by management's expert, or the internal audit function. [ISAE 3000 Para. A136]

A50. The practitioner's professional judgment as to what constitutes sufficient appropriate evidence is influenced by such factors as the following:

- Significance of a potential misstatement and the likelihood of its having a material effect, individually or when aggregated with other potential misstatements, on the sustainability information.
- Effectiveness of management or those charged with governance's responses to address the known risk of material misstatement.
- Experience gained during previous assurance engagements with respect to similar potential misstatements.
- Results of procedures performed, including whether such procedures identified specific misstatements.
- Source and reliability of the available information.
- Persuasiveness of the evidence.
- Understanding of the entity and its environment.

[ISAE 3000 (Revised) Para. A155]

A51. The evaluation of the preparation of qualitative information or qualitative aspects of quantitative information, may include consideration of whether:

- (a) There are indicators of possible bias in judgments and decisions in the making of estimates and in preparing the sustainability information;
- (b) The quantification methods and reporting policies selected and applied are consistent with the applicable criteria and are appropriate;
- (c) The information presented in the sustainability information is relevant, reliable, complete, comparable and understandable;

- (d) The sustainability information provides adequate disclosure of the applicable criteria, and other matters, including uncertainties, such that intended users can understand the significant judgments made in its preparation; and
- (e) The terminology used in the sustainability information is appropriate.

[ISAE 3410 Para.74]

- A52. When evidence is inconsistent with other evidence, it may indicate that some of the information used as evidence is not reliable. This may be the case, for example, when responses to inquiries of management, those charged with governance, internal auditors, or others are inconsistent. Such inconsistencies may therefore call into question the appropriateness of the practitioner's evaluation of the relevance and reliability of such information, in accordance with Part 4 paragraph 2. Part 4 paragraph 5 addresses the practitioner's responsibilities when the practitioner has doubts about the relevance and reliability of information intended to be used as evidence. The extent to which the practitioner may need to modify or add to the procedures to resolve the doubts and the effect on other aspects of the assurance engagement may vary. [Moved from Part 4 para. A49] [ED 500 Para. A90]
- A53. When performing a procedure, the practitioner may identify items that are inconsistent with the practitioner's expectations or that exhibit characteristics that are unusual. Different terminology may be used to describe these items, for example, exceptions, outliers, notable items, or items of interest. These items may indicate a possible misstatement in the sustainability information. They may also indicate inconsistencies in evidence, particularly when other evidence has not identified similar exceptions or outliers, or cast doubt on the reliability of the information. [Moved from Part 4 para. A50] [ED-500 Para. A91]
- A54L. In considering the effect of inconsistencies in evidence on other aspects of the assurance engagement, the practitioner may consider whether the practitioner's identification of disclosures where material misstatements are likely to arise in a limited assurance engagement remains appropriate. [Moved from Part 4 para. A51] [ED-500 Para. A92]
- A55R. In considering the effect of inconsistencies in evidence on other aspects of the assurance engagement, the practitioner may consider whether the practitioner's risk assessment in a reasonable assurance engagement remains appropriate. [Moved from Part 4 para. A52] [ED-500 Para. A92]
- A56. If the practitioner is unable to obtain sufficient appropriate evidence, the practitioner is required to express a qualified conclusion or disclaim a conclusion on the sustainability information in accordance with Part 8 paragraph 28. [Moved from Part 4 para. A48] [ED-500 Para. A86]

*Concluding* (Ref: Para. 26-27)

- A57. In regulatory disclosure regimes, disclosures specified in the relevant law or regulation are adequate for reporting to the regulator. However, additional disclosures in the sustainability information may be necessary for other intended users to understand the significant judgments made in preparing the sustainability information, such as:
- (a) Which operations are included in the entity's organizational boundary, and the method used for determining that boundary if the applicable criteria allow a choice between different methods;

- (b) Significant evaluation or quantification methods and reporting policies selected, including:
  - (i) The process used to determine which topics and aspects of topics have been included in the sustainability information (see Part 3 paragraph A49B);
  - (ii) Any significant interpretations made in applying the applicable criteria in the entity's circumstances, including data sources and, when choices between different methods are allowed, or entity-specific methods are used, disclosure of the method used and the rationale for doing so; and
  - (iii) How the entity determines whether previously reported disclosures should be restated.
- (c) A statement regarding the uncertainties relevant to the entity's quantification of its sustainability information, including: their causes; how they have been addressed; their effects on the sustainability information report; and
- (d) Changes, if any, in the matters mentioned in this paragraph or in other matters that materially affect the comparability of the sustainability information with a prior period(s) or base year.

[ISAE 3410 Para. A29]

- A58. A description that the sustainability information is prepared in accordance with particular criteria is appropriate only if the sustainability information complies with all the requirements of those criteria that are effective during the period covered by the sustainability information. [ISAE 3410 Para. A132]
- A59. A description of the applicable criteria that contains imprecise qualifying or limiting language (for example, "the sustainability information is in substantial compliance with the requirements of XYZ") is not an adequate description as it may mislead users of the sustainability information. [ISAE 3410 Para. A133]
- A60. Some applicable criteria acknowledge explicitly or implicitly the concept of fair presentation. A fair presentation framework or criteria not only requires compliance with the requirements of the framework, but also acknowledges explicitly or implicitly that it may be necessary for management to provide disclosures beyond those specifically required by the framework. [ISA 700 (Revised)<sup>21</sup> Para.A7]
- A61. The practitioner's evaluation about whether the sustainability information achieves fair presentation is a matter of professional judgment. This evaluation takes into account such matters as the facts and circumstances of the entity, including changes thereto, based on the practitioner's understanding of the entity and the evidence obtained. The evaluation also includes consideration, for example, of the disclosures needed to achieve a fair presentation arising from matters that could be material (i.e., in general, misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of the users taken on the basis of the sustainability information as a whole), such as the effect of evolving requirements or the changing environment. [ISA 700 (Revised) Para.A8]

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<sup>21</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

A62. Evaluating whether the sustainability information achieves fair presentation may include, for example, discussions with management and those charged with governance about their views on why a particular presentation was chosen, as well as alternatives that may have been considered. The discussions may include, for example:

- The degree to which the amounts in the sustainability information is aggregated or disaggregated, and whether the presentation of amounts or disclosures obscures useful information, or results in misleading information.
- Consistency with appropriate industry practice, or whether any departures are relevant to the entity's circumstances and therefore warranted.

[ISA 700 (Revised) Para.A9]

*Scope Limitation* (Ref: Para. 28)

A63. A scope limitation may arise from:

- (a) Circumstances beyond the control of the appropriate party(ies). For example, documentation the practitioner considers it necessary to inspect may have been accidentally destroyed;
- (b) Circumstances relating to the nature or timing of the practitioner's work. For example, a physical process the practitioner considers it necessary to observe may have occurred before the practitioner's engagement; or
- (c) Limitations imposed by management, those charged with governance, or the engaging party on the practitioner that, for example, may prevent the practitioner from performing a procedure the practitioner considers to be necessary in the circumstances. Limitations of this kind may have other implications for the engagement, such as for the practitioner's consideration of engagement risk and the acceptance and continuance of the client relationship and the assurance engagement.

[ISAE 3000 (Revised) Para.A156]

A64. An inability to perform a specific procedure does not constitute a scope limitation if the practitioner is able to obtain sufficient appropriate evidence by performing alternative procedures.

[ISAE 3000 (Revised) Para. A157]

*Taking Overall Responsibility for Managing and Achieving Quality* (Ref: Para. 29)

A65. Relevant considerations in determining that the engagement leader's involvement has been sufficient and appropriate throughout the engagement to provide a basis for determining that the significant judgments made and conclusions reached are appropriate, given the nature and circumstances of the engagement, include, for example:

- (a) How consultation on difficult, contentious or other matters has been undertaken and conclusions agreed have been implemented;
- (b) How differences of opinion have been addressed and resolved; and
- (c) How the documentation evidences the engagement leader's involvement throughout the engagement.

[ISA 220 Para. 35, 37, 38 and A114]

A66. Indicators that the engagement leader may not have been sufficiently and appropriately involved include, for example:

- Lack of timely review by the engagement leader of the engagement planning, including reviewing the risk procedures performed.
- Evidence that those to whom tasks, actions or procedures have been assigned were not adequately informed about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof; and were not provided other necessary instructions and relevant information.
- A lack of evidence of the engagement leader's direction and supervision of the other members of the engagement team and the review of their work.

[ISA 220 Para. A115]

A67. If the engagement leader's involvement does not provide the basis for determining that the significant judgments made and the conclusions reached are appropriate, the engagement leader will not be able to reach the determination required by paragraph 29. In addition to taking account of firm policies or procedures that may set forth the required actions to be taken in such circumstances, appropriate actions that the engagement leader may take, include, for example:

- Updating and changing the engagement plan;
- Reevaluating the planned approach to the nature and extent of review and modifying the planned approach to increase the involvement of the engagement leader; or
- Consulting with personnel assigned operational responsibility for the relevant aspect of the firm's system of quality management.

[ISA 220 Para. A116]

*Documentation* (Ref: Para. 30)

A68. Documentation evidencing the involvement of the engagement leader and the engagement leader's determination in accordance with paragraph 30 may be accomplished in different ways depending on the nature and circumstances of the engagement. For example:

- Direction of the engagement team can be documented through signoffs of the engagement plan and project management activities;
- Minutes from formal meetings of the engagement team may provide evidence of the clarity, consistency and effectiveness of the engagement leader's communications and other actions in respect of culture and expected behaviors that demonstrate the firm's commitment to quality;
- Agendas from discussions between the engagement leader and other members of the engagement team, and where applicable the engagement quality reviewer, and related signoffs and records of the time the engagement leader spent on the engagement, may provide evidence of the engagement leader's involvement throughout the engagement and supervision of other members of the engagement team; or

- Signoffs by the engagement leader and other members of the engagement team provide evidence that the working papers were reviewed.

[ISA 200 Para. A118]

## Part 9: Reporting

### Preparing the Assurance Report (Ref: Para.1-2)

#### *Communicating Effectively in the Assurance Report*

- A1. The assurance report is the means by which the practitioner communicates the outcome of the assurance engagement to the intended users. Clear communication helps the intended users to understand the assurance conclusion. The practitioner does not report orally or by use of symbols without also providing a written assurance report that is readily available whenever the oral report is provided or the symbol is used, so that the practitioner's conclusion are not misunderstood. For example, a symbol could be hyperlinked to a written assurance report on the Internet. [EER Para. 398, ISAE 3000 (Revised) Para. A159]

- A2. [PLACEHOLDER: Illustrative assurance reports to be presented at the June 2023 Board meeting]

The Appendix contains illustrations of assurance reports on sustainability information, incorporating the elements set forth in Part 9 paragraph 3. [ISAE 3410 Para. A134]

#### *Assurance Report Content (Ref: Para.3)*

##### *Title of the Assurance Report (Ref: Para.3(a))*

- A3. This ISSA does not require a standardized format for reporting on all assurance engagements. Instead, it identifies the basic elements the assurance report is to include. Assurance reports are tailored to the specific engagement circumstances. The practitioner may use headings in addition to those required by this ISSA, to avoid misinterpretation of the requirements. [ISAE 3000 (Revised) Para.A160]

- A4. [PLACEHOLDER: Revise this paragraph to reflect proposed amendments to the Code for sustainability assurance engagements]

To be independent an assurance report is prepared by a practitioner that meets the independence requirements of the IESBA Code applicable to sustainability assurance engagements or requirements at least as demanding.

##### *Addressee (Ref: Para.3(b))*

- A5. The addressee is usually the engaging party or those charged with governance of the entity. As well as identifying the addressee of the assurance report, the practitioner may consider it appropriate to include wording in the body of the assurance report that specifies the purpose for which, or the intended users for whom, the report was prepared. [ISAE 3410 Para. A140]

The Practitioner's Conclusion (Ref: Para. 3(c))

The Level of Assurance Obtained (Ref: Para. 3(c)(iii))

- A6. When parts of the sustainability information are subject to limited assurance and other parts are subject to reasonable assurance, clear identification in the assurance report of the sustainability information subjected to each level of assurance may aid users' understanding of what has been subject to limited assurance and what has been subject to reasonable assurance, . The conclusions relating to each part of the sustainability information may also be distinguished to assist the intended users. [EER Para.422]

Identification of the Sustainability Information (Ref: Para. 3(c)(iv))

- A7. Identification and description of the sustainability information subject to the assurance engagement and, when appropriate, the underlying subject matter may include, for example:

- The title or other identifying features of the sustainability information and, if applicable any broader report (such as an annual report or integrated report) within which the sustainability information is reported.
- If the sustainability information subject to assurance is not the entire sustainability information, identification of the part of the sustainability information that has been assured, and if necessary to assist users' understanding, identification of the sustainability information not subject to the assurance engagement.
- The point in time or period of time to which the measurement or evaluation of the underlying subject matter relates.
- Where applicable, the name of other entity/ies (such as entities in the value chain), facility/ies, location/s, jurisdiction/s or other boundary to which the underlying subject matter relates.
- An explanation of those characteristics of the underlying subject matter or the sustainability information of which the intended users should be aware, and how such characteristics may influence the precision of the measurement or evaluation of the underlying subject matter against the applicable criteria, or the persuasiveness of available evidence. For example:
  - The degree to which the sustainability information is qualitative versus quantitative, narrative versus numeric, objective versus judgmental, or historical versus forward-looking.
  - Changes in the underlying subject matter, criteria or other engagement circumstances that affect the comparability of the sustainability information from one period to the next.

[ISAE 3000 (Revised) Para.A164]

Identification of applicable criteria (Ref: Para. (Ref: Para. 3(c)(v) and (f)(ii))

- A8. the applicable criteria against which the underlying subject matter was measured or evaluated so the intended users can understand the basis for the practitioner's conclusion. However, management or those charged with governance are responsible for including the criteria in the sustainability information or referring to the criteria. In order for the intended users to understand the basis of

preparation of the sustainability information, the entity's disclosures in the sustainability information include matters such as:

- Details of the sources of the applicable criteria, and whether or not the applicable criteria are framework criteria, embodied in law or regulation, or issued by authorized or recognized bodies of experts that follow a transparent due process, , and if they are not, who developed the criteria, the basis for that development (such as how the intended user's needs were identified) and a description of why they are considered suitable.
- Measurement or evaluation methods used when the applicable criteria allow for choice between a number of methods.
- Any significant interpretations made in applying the applicable criteria in the engagement circumstances.
- Whether there have been any changes in the measurement or evaluation methods used.

[ISAE 3000 (Revised) Para. A165]

- A9. Sometimes preparers may report the sustainability information using more than one framework. In such a case, user understanding is likely to be enhanced if management or those charged with governance make available the criteria relating to each framework separately, rather than being summarized or combined. [EER Para. 413]

Expression of the Practitioner's Conclusion (Ref: Para. 3(c)(vii))

A10L. Examples of conclusions expressed in a form appropriate for a limited assurance engagement include:

- (a) When expressed in terms of the sustainability information and the applicable criteria:
  - (i) Under a compliance framework: "Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the [sustainability information] is not prepared in accordance with XYZ criteria, in all material respects."
  - (ii) Under a fair presentation framework: "Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the [sustainability information] is not fairly presented, in all material respects, in accordance with XYZ criteria."
- (b) When expressed in terms of a statement made by the appropriate party:
  - (i) Under a compliance framework: "Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the [appropriate party's] statement that [the entity] has not complied, in all material respects, with XYZ requirements."
  - (ii) Under a fair presentation framework: "Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the [appropriate party's] statement that [sustainability information] is prepared in accordance with XYZ criteria is not, in all material respects, fairly stated."

**[ISAE 3000 (Revised) Para. A181]**

A11R. Examples of conclusions expressed in a form appropriate for a reasonable assurance engagement include:

- (a) When expressed in terms of the sustainability information and the applicable criteria:
  - (i) Under a compliance framework: “In our opinion, the entity’s sustainability information is properly prepared, in all material respects, in accordance with XYZ criteria,” or
  - (ii) Under a fair presentation framework: “In our opinion, the entity’s sustainability information is fairly presented, in all material respects, in accordance with XYZ criteria,”
- (b) When expressed in terms of a statement made by the appropriate party:
  - (i) Under a compliance framework: “In our opinion, the [appropriate party’s] statement that the entity has complied with XYZ requirement is properly presented, in all material respects,” or
  - (ii) Under a fair presentation framework: “In our opinion, the [appropriate party’s] statement that the [sustainability information] is prepared in accordance with XYZ criteria is fairly stated, in all material respects”.

**[ISAE 3000 (Revised) Para. A179]**

A12. Forms of expression that may be useful for underlying subject matters include, for example, one, or a combination of, the following:

- For compliance frameworks—“in compliance with” or “in accordance with.”
- For engagements when the applicable criteria describe a process or methodology for the preparation or presentation of the sustainability information—“properly prepared.”
- For engagements when the principles of fair presentation are embodied in the applicable criteria—“fairly stated.”

**[ISAE 3000 (Revised) Para. A182]**

A13. It may be appropriate to inform the intended users of the context in which the practitioner’s conclusion is to be read when the assurance report includes an explanation of particular characteristics of the underlying subject matter of which the intended users should be aware. The practitioner’s conclusion may, for example, include wording such as: “This conclusion has been formed on the basis of the matters outlined elsewhere in this independent assurance report.”

**[ISAE 3000 (Revised) Para. A180]**

Basis for Conclusion Section (Ref: Para. 3(d))

A14. Practitioner’s statements that contain imprecise or limiting language (for example, “the engagement was performed by reference to (or based on) ISSA 5000”) may mislead users of assurance reports. In these circumstances, users may understand that all of the requirements of this ISSA have all been complied with, even if they have not (see Part 1 paragraph 2 and Part 9 paragraph 9).

**[EER Para. 417, ISAE 3000 (Revised) Para. A171]**

A15. **[PLACEHOLDER for AM when IESBA requirements are revised]**

Responsibilities for the Sustainability Information (Ref: Para. 3(d)(ii), 3(f) and 3(g))

- A16. In some jurisdictions, it may be appropriate to refer to those charged with governance regarding the responsibilities of the entity. Whether to do so will depend on the engagement circumstances, including the legal framework in the particular jurisdiction. [ISA 700<sup>22</sup> Para. 33]
- A17. Identifying relative responsibilities informs the intended users that the entity is responsible for the underlying subject matter, and the measurement or evaluation of the underlying subject matter against the applicable criteria, and that the practitioner's role is to independently express a conclusion about the sustainability information. [ISAE 3000 (Revised) Para. A169]
- A17A. When defining or describing materiality in the assurance report, the practitioner may include whether materiality is considered from the perspective of the impacts of the underlying subject matter on the entity, the entity impacts on the underlying subject matter or both.
- A18. Describing inherent limitations is different from including an Emphasis of Matter paragraph in the assurance report. Inherent limitations are present in the measurement or evaluation of the underlying subject matter, irrespective of whether they have been disclosed by the preparer. However, it may be useful for the preparer to disclose such inherent limitations in greater detail within the sustainability information. For example, there are inherent uncertainties about whether climate change scenarios will materialize and what their impact might be. In some cases, the inherent measurement or evaluation uncertainties may be fundamental to the users' understanding of the sustainability information. In this case, these would then need to be described within the sustainability information. [EER Para. 414]

An Informative Summary of the Work Performed as the Basis for the Practitioner's Conclusion  
(Ref: Para. 3(i)-3(j))

- A19. For engagements which require the practitioner to obtain different levels of assurance on different topics, aspects of topics or disclosures within the sustainability information, the practitioner may also delineate the procedures performed for each level of assurance so that it is clear to the users which procedures were performed in relation to the sustainability information.
- A20R. The assurance report in a reasonable assurance engagement normally follows standard wording and only briefly describes procedures performed. This is because, in a reasonable assurance engagement, describing in any level of detail the specific procedures performed would not assist users to understand that, in all cases where an unmodified conclusion is issued, sufficient appropriate evidence has been obtained to enable the practitioner to form a reasonable assurance conclusion. [ISAE 3410 Para. A142]
- A21L. In a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential for the intended users to understand the conclusion expressed in a limited assurance report. The description of the practitioner's procedures in a limited assurance engagement is therefore ordinarily more detailed than in a reasonable assurance engagement. It also may be appropriate to include a description of procedures that were not performed that would ordinarily be performed in a reasonable assurance engagement. However, a complete identification of all such

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<sup>22</sup> ISA 700, *Forming an Opinion and Reporting on Financial Statements*

procedures may not be possible because the practitioner's required understanding and assessment of risks of material misstatement are less than in a reasonable assurance engagement.

Factors to consider in making that determination and the level of detail to be provided include:

- Circumstances specific to the entity (e.g., the differing nature of the entity's activities compared to those typical in the sector).
- Specific engagement circumstances affecting the nature and extent of the procedures performed.
- The intended users' expectations of the level of detail to be provided in the report, based on market practice, or applicable law or regulation.

[ISAE 3410 Para.A143, ISAE 3000 (Revised) Para.A176-A177]

A22L. In describing the procedures performed in the limited assurance report, it is important that they are written in an objective way but are not summarized to the extent that they are ambiguous, nor written in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is also important that the description of the procedures not give the impression that an agreed-upon procedures engagement has been undertaken, and in most cases will not detail the entire work plan. The procedures for limited assurance may appear to a user to be more comprehensive than the procedures described for a reasonable assurance engagement so it may be helpful for the practitioner to explain why this is the case, by including in the assurance report an indication of the differences between limited assurance and reasonable assurance to aid user understanding, especially when both reasonable and limited assurance are in the same assurance report. [ISAE 3410 Para. A144, ISAE 3000 (Revised) Para. A178, EER Para. 420]

Date of the Assurance Report (Ref: Para 3(I))

A23. Including the assurance report date informs the intended users that the practitioner has considered the effect on the sustainability information and on the assurance report of events that occurred up to that date. [ISAE 3000 (Revised) Para. A185]

Deciding whether to include information in addition to the basic elements of the assurance report  
(Ref: Para.3)

A24. In considering whether to include information in addition to the basic elements in the assurance report, the practitioner may consider matters that may impact users' understanding of the sustainability information, including:

- (a) Sustainability information may be prepared for diverse groups of users, and may cover aspects of underlying subject matter that are diverse in nature, ranging from a single aspect, such as greenhouse gases emitted by the entity during a period, through to an entity's strategy, business model and performance, which may comprise:
  - Historical information.
  - Forward-looking information.
  - Processes, systems and controls.
  - Performance against targets, goals or commitments [EER Para. 403]

- (b) The underlying subject matter may be complex to measure or evaluate, or be subject to measurement or evaluation uncertainties, which the intended users may not be aware of;
- (c) The criteria used to measure or evaluate them may be set out in an established framework, may be developed by the entity, or may be selected from various frameworks, with or without further development by the entity, making it difficult for a user to understand how the sustainability information has been prepared;
- (d) The sustainability information may be presented in the form of a traditional standalone report, or as part of a larger report or reports. It may also be presented partially in narrative and partially through the use of graphs, images, embedded videos or similar representations. The presentation could support the users' understanding of what is, and what is not, subject to the assurance engagement.

[EER Para. 404]

A25. When the sustainability information is made up of a number of aspects, separate conclusions may be provided on each aspect. All such separate conclusions do not need to relate to the same level of assurance. Rather, each conclusion is expressed in the form that is appropriate to either a reasonable assurance engagement or a limited assurance engagement. References in this ISSA to the conclusion in the assurance report include each conclusion when separate conclusions are provided.

[ISAE 3000 (Revised) Para. A2]

A26. An assurance conclusion expressed in a binary manner (e.g., concludes that the sustainability information either has, or has not, been prepared in accordance with the applicable criteria) may not be able to communicate sufficiently the complexities that may be present in a sustainability assurance engagement without additional contextual information to aid the intended users' understanding. The practitioner may choose a "short-form" or "long-form" style of reporting to facilitate effective communication to the intended users. "Short-form" reports ordinarily include only the basic elements, as required by Part 9 paragraph 3. "Long-form" reports include other information and explanations that are not intended to affect the practitioner's conclusion, such as:

- (a) Detailed description of the terms of the engagement;
- (b) The applicable criteria being used;
- (c) Findings relating to particular aspects of the engagement;
- (d) Details of the qualifications and experience of the practitioner and others involved with the engagement;
- (e) The practitioner's considerations of materiality, and whether those considerations are in respect of qualitative or quantitative sustainability information;
- (f) The intended users of the assurance report and the purpose for which it has been prepared;
- (g) The range of competencies that were needed to perform the engagement and how they have been deployed on the engagement;
- (h) Explanation of why, in an attestation engagement, the practitioner cannot become involved in the preparation of the sustainability information because such an engagement is designed to give a conclusion by an independent practitioner over the sustainability information;

The practitioner may find it helpful to consider the significance of providing such information to the information needs of the intended users. As required by paragraph 2, additional information is clearly separated from the practitioner's conclusion and phrased in such a manner so as to make it clear that it is not intended to detract from that conclusion.

[ISAE 3000 (Revised) Para. A161, EER Para. 399-400, 405, 406]

- A27. Including the practitioner's recommendations on matters, such as improvements to the entity's information system, in the assurance report may imply that those matters have not been appropriately dealt with in preparing the sustainability information. Such recommendations may be communicated, for example, in a management letter or in discussion with those charged with governance. Considerations relevant to deciding whether to include recommendations in the assurance report include whether their nature is relevant to the information needs of intended users, and whether they are worded appropriately to ensure they will not be misunderstood as a qualification of the practitioner's conclusion on the sustainability information. [ISAE 3410 Para. A151]

Name of the Engagement Leader in the Assurance Report (Ref: Para. 4)

- A28. The objective of the firm in ISQM 1 is to design, implement and operate a system of quality management that provides the firm with reasonable assurance that:

- The firm and its personnel fulfill their responsibilities in accordance with professional requirements and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- Engagement reports issued by the firm or engagement leaders are appropriate in the circumstances.

Notwithstanding the objective of ISQM 1, naming the engagement leader in the assurance report is intended to provide further transparency to the users of the assurance report on sustainability information of a listed entity. [ISA 700 Para. A61]

- A29. Law, regulation or national standards may require that the practitioner's report include the name of the engagement leader responsible for assurance reports other than those of sustainability information of listed entities. The practitioner may also be required by law, regulation or national standards, or may decide to include additional information beyond the engagement leader's name in the assurance report to further identify the engagement leader, for example, the engagement leader's professional license number that is relevant to the jurisdiction where the engagement leader practices. [ISA 700 Para. A62]
- A30. In rare circumstances, the practitioner may identify information or be subject to experiences that indicate the likelihood of a personal security threat that, if the identity of the engagement leader is made public, may result in physical harm to the engagement leader, other engagement team members or other closely related individuals. However, such a threat does not include, for example, threats of legal liability or legal, regulatory or professional sanctions. Discussions with those charged with governance about circumstances that may result in physical harm may provide additional information about the likelihood or severity of the significant personal security threat. Law, regulation or national standards may establish further requirements that are relevant to determining whether the disclosure of the name of the engagement leader may be omitted. [ISA 700 Para. A63]

Reference to a Practitioner's Expert in the Assurance Report (Ref: Para. 5)

- A31. In some cases, law or regulation may require a reference to the work of a practitioner's expert in the assurance report, for example, for the purposes of transparency in the public sector. It may also be appropriate in other circumstances, for example, to explain the nature of a modification of the practitioner's conclusion, or when the work of an expert is integral to findings included in a long-form report. [ISAE 3000 (Revised) Para. A186]
- A32. A generic reference in a long-form report to the engagement having been conducted by suitably qualified personnel including subject matter experts and assurance specialists is unlikely to be misunderstood as reduced responsibility. The potential for misunderstanding is higher, however, in the case of short-form reports, where minimum contextual information is able to be presented, or when the practitioner's expert is referred to by name. Therefore, additional wording may be needed in such cases to prevent the assurance report implying that the practitioner's responsibility for the conclusion expressed is reduced because of the involvement of the expert. [ISAE 3000 (Revised) Para. A188]

**Other Reporting Responsibilities**

*Assurance Report Prescribed by Law or Regulation* (Ref: Para 6-8)

- A33. In some jurisdictions, the practitioner may have additional responsibilities to report on other matters that are additional to the practitioner's responsibilities under this ISSA. For example, the practitioner may be required to provide a conclusion on specific matters, such as compliance of the sustainability information with a digital taxonomy. Assurance standards in the specific jurisdiction often provide guidance on the practitioner's responsibilities with respect to specific additional reporting responsibilities in that jurisdiction. [ISA 700 Para. A58]
- A34. In some cases, the relevant law or regulation may require or permit the practitioner to report on these other responsibilities as part of their assurance report on the sustainability information. In other cases, the practitioner may be required or permitted to report on them in a separate report. [ISA 700 Para. A59]
- A35. Paragraphs 6-7 permit combined presentation of other reporting responsibilities and the practitioner's responsibilities under this ISSA only when they address the same topics, aspects of topics or disclosures and the wording of the assurance report clearly differentiates the other reporting responsibilities from those under this ISSA. Such clear differentiation may make it necessary for the assurance report to refer to the source of the other reporting responsibilities and to state that such responsibilities are beyond those required under ISSA 5000. Otherwise, other reporting responsibilities are required to be addressed in a separate section in the assurance report. [ISA 700 Para. A60]

*Unmodified Conclusions*

*Emphasis of Matter Paragraphs and Other Matter Paragraphs* (Ref: Para. 11)

- A36. Inclusion of an 'Emphasis of Matter' paragraph draws the users' attention to matters presented or disclosed in the sustainability information that, in the practitioner's judgment, is of such importance that it is fundamental to a user's understanding of the sustainability information (see Appendix *Illustrative assurance reports*); and

- A37. Inclusion of an ‘Other matter’ paragraph, to communicate a matter, other than those that are presented or disclosed in the sustainability information that, in the practitioner’s judgment, is relevant to intended users’ understanding of the engagement, the practitioner’s responsibilities or the assurance report.

The Difference between Inherent Limitations, Emphasis of Matter and Other Matter paragraphs

- A38. An Emphasis of Matter can only draw attention to a matter which is presented or disclosed by the preparer in the sustainability information. The content of an Emphasis of Matter paragraph includes a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the sustainability information. It also indicates that the practitioner’s conclusion is not modified in respect of the matter emphasized. An Emphasis of Matter paragraph may be appropriate when, for example:

- (a) Different criteria have been used or the criteria have been revised, updated or interpreted differently than in prior periods and this has had a fundamental effect on the sustainability information.
- (b) A system breakdown for part of the period impacted the operation of controls or recording of matters material to the engagement.

[EER Para.415, ISAE 3410 Para. A147, ISAE 3410 Para. A149]

- A39. The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the sustainability information. An Other Matter paragraph does not include information that the practitioner is prohibited from providing by law, regulation or other professional requirements, for example, ethical standards relating to confidentiality of information. An Other Matter paragraph also does not include information that is required to be provided by management. An Other Matter paragraph may be appropriate when, for example, the scope of the engagement has changed significantly from the prior period and this has not been stated in the sustainability information. [ISAE 3410 Para. A148, A150 and A152]

- A40. A widespread use of Emphasis of Matter or Other Matter paragraphs may diminish the effectiveness of the practitioner’s communication of such matters. Emphasis of Matter or Other Matter paragraphs are not a substitute for a modified assurance conclusion. [ISAE 3410 Para. A146]

*Modified Conclusions* (Ref: Para. 14-17)

Qualified Conclusion Due to Limitation of Scope (Ref: Para. 14(a), 15 and 16)

- A41. When there is a limitation of scope with respect to a material item in the sustainability information, the practitioner will not have obtained sufficient appropriate evidence about that matter. In these circumstances, the practitioner may be unable to conclude whether or not the disclosures in the other information related to this matter result in a material misstatement of the other information. Accordingly, the practitioner may need to modify the statement required by paragraph 13(e) to refer to the practitioner’s inability to consider management’s description of the matter in the other information in respect of which the assurance conclusion on the sustainability information has been qualified as explained in the Basis for Qualified Conclusion paragraph. The practitioner is nevertheless required to report any other uncorrected material misstatements of the other information that have been identified. [ISA 720 Para. A56]

Disclaimer of Conclusion (Ref: Para. 14(a))

A42. When the practitioner disclaims a conclusion on the sustainability information, providing further details about the engagement, including a section to address other information may overshadow the disclaimer of conclusion on the sustainability information as a whole. Accordingly, in those circumstances the assurance report does not include a section addressing the reporting requirements under this ISSA. [ISA 720 Para. A58]

Impact of Modified Conclusions on the Statement on Other Information (Ref: Para. 13 and 14(b))

A43. A qualified or adverse assurance conclusion on the sustainability information may not have an impact on the statement on other information required by paragraph 13(e) if the matter for which the assurance conclusion has been modified is not included or otherwise addressed in the other information and the matter does not affect any part of the other information. In other circumstances, there may be implications for such reporting as described in paragraphs A44–A45. [ISA 720 Para. A54]

A44. When the assurance conclusion is qualified, consideration may be given as to whether the other information is also materially misstated for the same matter as, or a related matter to, the matter giving rise to the qualified conclusion on the sustainability information. [ISA 720 Para. A55]

A45. An adverse conclusion on the sustainability information relating to a specific matter(s) described in the Basis for Adverse Conclusion paragraph does not justify the omission of reporting of material misstatements of the other information that the practitioner has identified in the assurance report in accordance with paragraph 13(e)(ii). When an adverse conclusion has been expressed on the sustainability information, the practitioner may need to appropriately modify the statement required by paragraph 13(e), for example, to indicate that the disclosures in the other information are materially misstated for the same matter as, or a related matter to, the matter giving rise to the adverse conclusion on the sustainability information. [ISA 720 Para. A57]

Effects of the Matter are Pervasive (Ref: Para. 15)

A46. The term ‘pervasive’ describes the effects on the sustainability information of misstatements or the possible effects on the sustainability information of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate evidence. Pervasive effects on the sustainability information are those that, in the practitioner’s professional judgment:

- (a) Are not confined to specific aspects of the sustainability information;
- (b) If so confined, represent or could represent a substantial proportion of the sustainability information; or
- (c) In relation to disclosures, are fundamental to the intended users’ understanding of the sustainability information.

[ISAE 3000 (Revised) Para. A189]

A47. The nature of the matter, and the practitioner’s judgment about the pervasiveness of the effects or possible effects on the sustainability information, affects the type of conclusion to be expressed.

[ISAE 3000 (Revised) Para. A190]

Examples of Modified Conclusions (Ref: Para. 14)

A48L. Examples of a qualified conclusion for a limited assurance engagement (with a material misstatement) are:

- Qualified conclusion (compliance framework) – “Based on the procedures performed and the evidence obtained, except for the effect of the matter described in the Basis for Qualified Conclusion section of our report, nothing has come to our attention that causes us to believe that the [sustainability information] is not prepared, in all material respects, in accordance with XYZ criteria.”
- Qualified conclusion (fair presentation framework) – “Based on the procedures performed and the evidence obtained, except for the effect of the matter described in the Basis for Qualified Conclusion section of our report, nothing has come to our attention that causes us to believe that the [sustainability information] is not fairly presented, in all material respects, in accordance with XYZ criteria.”

[ISAE 3000 (Revised) Para. A191]

A49R. Example of qualified conclusion for a reasonable assurance engagement (with a material misstatement):

- Qualified conclusion (compliance framework) – “Except for the effect of the matter described in the Basis for Qualified Conclusion section of our report, the [sustainability information] is prepared, in all material respects, in accordance with XYZ criteria.”
- Qualified conclusion (fair presentation framework) – “Except for the effect of the matter described in the Basis for Qualified Conclusion section of our report, the [sustainability information] is fairly presented, in all material respects, in accordance with XYZ criteria.”

[ISAE 3000 (Revised) Para. A191]

A50. Examples of adverse conclusions and a disclaimer of conclusion for both limited and reasonable assurance engagements are:

- Adverse conclusion (an example for a material and pervasive misstatement for information prepared under a compliance framework) – “Because of the significance of the matter described in the Basis for Adverse Conclusion section of our report, the [sustainability information] is not prepared in accordance with “XYZ criteria.”
- Adverse conclusion (an example for a material and pervasive misstatement for information prepared under a fair presentation framework) – “Because of the significance of the matter described in the Basis for Adverse Conclusion section of our report, the [sustainability information] does not present fairly the entity’s compliance with XYZ criteria.”
- Disclaimer of conclusion (an example for a material and pervasive limitation of scope) – “Because of the significance of the matter described in the Basis for Disclaimer of Conclusion section of our report, we have not been able to obtain sufficient appropriate evidence to form a conclusion on the [sustainability information]. Accordingly, we do not express a conclusion on that [sustainability information].”

[ISAE 3000 (Revised) Para. A191]

**Comparative Information (Ref: Para. 18-19)**

- A51. Law or regulation, the criteria or the terms of the engagement, may specify the requirements in respect of presentation, reporting and assurance of the comparative information in the sustainability information. Ordinarily, the disclosures presented in sustainability information measures or evaluates sustainability information for a discrete period and are not based on cumulative disclosures over time. As a result, the comparative information presented does not affect current year information unless information has been recorded in the wrong period and therefore the amounts may be based on the incorrect starting period for measurement. [ISAE 3410 Para. A118]
- A52. Where sustainability information includes references to percentage reductions or increases in measures or key performance indicators, or a similar comparison of period-on-period information, it is important that the practitioner consider the appropriateness of the comparisons. These may be inappropriate due to:
- (a) Significant changes in operations from the prior period;
  - (b) Significant changes in conversion factors;
  - (c) Significant changes in assumptions, or
  - (d) Inconsistency of sources or methods of measurement or evaluation.
- [ISAE 3410 Para.A119]
- A53. When comparative information is presented with the current sustainability information, but some or all of that comparative information is not covered by the practitioner's conclusion, it is important that the status of such information is clearly identified in both the sustainability information and the assurance report. [ISAE 3410 Para.A120]
- A54. Information reported in a prior period may need to be restated in accordance with law or regulation or the applicable criteria because of, for example, improved scientific knowledge, significant structural changes in the entity, the availability of more accurate quantification methods, or the discovery of a significant error. [ISAE 3410 Para.A121]
- A55. If the practitioner becomes aware that there may be a material misstatement in the comparative information presented, the practitioner may be able to perform procedures that are to be sufficient to reach a conclusion on the comparative information. [ISAE 3410 Para. A122]
- A56. If the engagement does not include assurance on comparative information, the requirement to perform procedures in the circumstances addressed by paragraph 19 is to satisfy the practitioner's ethical obligation to not knowingly be associated with materially false or misleading information.
- [ISAE 3410 Para. A123]

**GS 023**  
(Revised March 2023)

# **Guidance Statement GS 023**

## ***Special Considerations – Public Sector Engagements***

Issued by the **Auditing and Assurance Standards Board**

Draft



**Australian Government**

**Auditing and Assurance Standards Board**

## **Obtaining a Copy of this Guidance Statement**

This Guidance Statement is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

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*Important Note*

Guidance Statements are developed and issued by the AUASB to provide guidance to auditors and assurance practitioners on the application of AUASB Standards and, where relevant, legislation, regulation or other authoritative publication, to assist auditors and assurance providers to comply with Standards. Guidance Statements are intended to assist auditors and assurance practitioners in applying an existing standard or standards of general application to particular circumstances or specialised industries/sectors.

Guidance Statements are designed to provide guidance to auditors and assurance practitioners to achieve the objective(s) of the audit or other assurance engagement. Accordingly, Guidance Statements refer to, and are written in the context of, a specific AUASB Standard(s); and, where relevant, legislation, regulation or other authoritative publication. Guidance Statements are not aimed at providing guidance covering all aspects of the audit or other assurance engagement.

Guidance Statements, whilst formally approved and issued by the AUASB, do not establish new principles or amend existing standards. Guidance Statements therefore do not include any additional requirements or extend or vary the existing requirements of any AUASB Standards and are not legally enforceable.

Guidance Statement GS 023 *Special Considerations – Public Sector Engagements* provides supplementary application and other explanatory material in relation to selected issues identified as presenting challenges in applying AUASB Standards in the public sector. It is not, and is not intended to be, a substitute for compliance with relevant AUASB Standard(s) and auditors and assurance practitioners are required to comply with the relevant AUASB Standard(s) when conducting an audit or other assurance engagement.

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*Draft*

### **AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 023 *Special Considerations – Public Sector Engagements* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters.

This Guidance Statement provides guidance to assist auditors and assurance practitioners to achieve the objective(s) of the audit or other assurance engagement. It includes explanatory material on specific matters for the purposes of understanding and complying with AUASB Standards. Auditors and assurance practitioners exercise professional judgement when using this Guidance Statement.

This Guidance Statement does not prescribe or create new requirements.

Dated: 15 March 2023

W R Edge  
Chair - AUASB

### **Conformity with International Pronouncements**

This Guidance Statement has been formulated for Australian public interest purposes and accordingly there is no equivalent International Auditing Practice Note (IAPN) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

*Draft*

## GUIDANCE STATEMENT GS 023

### *Special Considerations – Public Sector Engagements*

#### Application

1. This Guidance Statement (**GS**) has been formulated by the Auditing and Assurance Standards Board (**AUASB**) to provide supplementary guidance to public sector auditors and assurance practitioners in implementing and applying AUASB Standards<sup>1</sup> to audits, reviews, other assurance and related services engagements in the public sector (**public sector engagements**).
2. The aim of the AUASB in issuing this GS is to promote consistent application of AUASB Standards in the public sector to enhance the quality of public sector audit and assurance engagements and their resulting reports.
3. This GS is to be read and applied in conjunction with applicable AUASB Standards, which set out the minimum requirements and related application and other explanatory material that are to be applied in conducting public sector engagements. This GS does not establish or extend the requirements (or basic principles or essential procedures) under existing AUASB Standards for public sector engagements.
4. Auditors and assurance practitioners should exercise professional judgement when using this GS.

#### Issuance Date

5. This GS is issued on 15 March 2023 by the AUASB and replaces GS 023 *Special Considerations – Public Sector Engagements*, issued in June 2022.

#### Introduction

#### Structure and Scope of this GS

6. This GS comprises two parts:

- (a) **Introductory guidance material**

The purpose of the introductory guidance material is to explain the purpose, status and authority of this GS and how the topic specific guidance material included in this GS is to be understood and applied to public sector engagements.

The introductory guidance material also provides the necessary context for the topic specific guidance material and outlines the unique challenges faced by public sector auditors and assurance practitioners in complying with AUASB Standards.

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<sup>1</sup> AUASB Standards comprise Australian Auditing Standards (ASAs), Australian Standards on Quality Management (ASQMs), Standards on Assurance Engagements (ASAEs), Standards on Review Engagements (ASREs) and Standards on Related Services (ASRSs). See Auditing Standard ASA 101 *Preamble to AUASB Standards*, paragraphs 7 and 10.

**(b) Topic specific guidance material**

Topic specific guidance material is developed and issued when a need for specific supplementary guidance relating to public sector engagements is identified in practice, and will be incrementally added to the GS in response to emerging issues.

7. Whilst the AUASB generally does not set industry or sector specific standards, the AUASB may from time to time produce industry or sector specific guidance materials in the form of authoritative AUASB GSs and/or other non-authoritative materials. The AUASB's *Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications* (AUASB Due Process Framework) outlines the circumstances that may lead to the AUASB issuing guidance materials and identifies factors the AUASB will consider in determining the form of guidance that will be appropriate in the circumstances.<sup>2</sup>
8. AUASB GSs are authoritative AUASB pronouncements<sup>3</sup> that are formally approved and issued by the AUASB. GSs are developed, issued and maintained in accordance with the AUASB's Due Process Framework.<sup>4</sup> Refer to the *Foreword to AUASB Pronouncements* for further information on the purpose, authority and legal status of GSs.<sup>5</sup>
9. The topic specific guidance included in this GS aims to support public sector auditors and assurance practitioners in implementing and applying the AUASB Standards in practice by providing supplementary guidance in relation to the definitions, objectives, requirements and application and explanatory material contained in the standards.
10. The main objective is to provide additional guidance to support public sector auditors and assurance practitioners to either comply with the requirements in AUASB Standards or identify appropriate alternative procedures which will enable the auditor/assurance practitioner to achieve the objective of a standard.
11. This GS covers only selected issues identified as presenting challenges in applying AUASB Standards to public sector engagements. It includes application and explanatory material on specific matters for the purposes of understanding and complying with the relevant requirements in AUASB Standards. In particular, guidance may:
  - explain more precisely what a requirement means or is intended to cover;
  - provide background information on matters addressed in an AUASB Standard, for example, to explain circumstances that may need further consideration in the public sector;
  - include examples that illustrate how the requirements might be applied and/or provide examples of procedures that may be appropriate in the circumstances; and
  - include illustrative examples of auditor reports or other documents.

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<sup>2</sup> See AUASB Due Process Framework, Sections IV, IX and X.

<sup>3</sup> See *Foreword to AUASB Pronouncements*, paragraphs 10-23.

<sup>4</sup> See AUASB Due Process Framework, Section IX.

<sup>5</sup> See *Foreword to AUASB Pronouncements*, paragraphs 20-23.

## Public Sector Engagements

12. Law or regulation governing public sector engagements generally mandate the appointment of a public sector auditor/assurance practitioner and commonly set out the public sector auditor's/assurance practitioner's responsibilities, functions and powers. Law or regulation may also prescribe other aspects of the terms of the engagement, including the objective and scope of the engagement and the responsibilities of management. There may be instances where the mandate or authority to perform an engagement and the public sector auditor's/assurance practitioner's powers reside in different pieces of legislation. AUASB Standards do not override law or regulation in such matters.
13. Where a public sector engagement is mandated by legislation, the public sector auditor/assurance practitioner cannot avoid such an obligation and, consequently, may not be in a position to not accept (that is, to decline) or not continue (that is, to withdraw from) the engagement. A public sector auditor/assurance practitioner may be required to perform these types of engagements whether or not the preconditions for the engagement exist and whether or not management's agreement on the terms of the engagement has been obtained. Consequently, the acceptance and continuance requirements of AUASB Standards may not be applicable to the public sector for legislatively mandated engagements.
14. In addition to legislatively mandated audits and assurance engagements in the public sector, the appointment of a public sector auditor/assurance practitioner may also be included as a requirement of an agreement, such as a Commonwealth agreement for the provision and acquittal of funding by the States and Territories or grant agreements from governments to Non-Government Organisations (NGO) service providers.
15. In Australia, Commonwealth, State or Territory Auditors-General are responsible for undertaking the majority of public sector engagements. Engagements at local government level are the responsibility of State or Territory Auditors-General in some jurisdictions, while in others, local government engagements are conducted by private sector auditors or audit firms, with or without the Auditor-General having an oversight role. Statutory bodies may be audited by private sector auditors or audit firms but this will depend on the specific legislation under which these entities operate.
16. Auditors-General exercise their public sector audit function within their specific jurisdictional legislative mandate, which governs the independence of their role and power of discretion in performing certain duties.
17. The responsibility to form an opinion or conclusion and to report outcomes is usually the domain of the respective Auditor-General. Depending on the legislative mandate in each jurisdiction, an Auditor-General may in some cases:
  - (a) engage a private sector auditor or audit firm under contract to assist and/or undertake certain functions of the Auditor-General; and/or
  - (b) delegate to a person employed in the Auditor-General's Office, or to a private sector auditor or audit firm, the power to express an opinion or conclusion, or to make a report.
18. In addition to legislatively mandated engagements, legislation may enable an Auditor-General to undertake audits or audit-related services by arrangement - that is, a public sector entity, a minister or the Legislature may request audits or audit-related services under an agreement with the Auditor-General. These engagements may be requested as a once-off arrangement or

as an annually recurring service. These types of engagements are often referred to as “by-arrangement” or “by-request” audits or reviews. An Auditor-General may only undertake these types of engagement where it falls within the Auditor-General’s legislative powers.

19. Auditors-General in Australia may be mandated to perform different types of assurance engagements on any subject of relevance to the responsibilities of management and those charged with governance of a public sector entity and the application of public resources. The extent or form of these engagements and the reporting thereon will vary according to the legislated mandate of the Auditor-General concerned and any legislation applicable to the entity which is the subject of the audit.
20. Depending on the legislative mandate in each jurisdiction, Auditors-General may be required to:
  - (a) conduct public sector engagements in accordance with applicable AUASB Standards;
  - (b) have regard to recognised professional standards; or
  - (c) set their own standards. Standards established by an Auditor-General may incorporate AUASB Standards.

## Financial Audits

21. In the Australian public sector, the scope and nature of financial audits conducted by public sector auditors are governed by relevant enabling legislation in each different jurisdiction.
22. For the purpose of this GS, the term “financial audit” means an audit that focuses on determining whether an entity’s financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor to express an opinion as to whether the financial information is free from material misstatement due to fraud or error.<sup>6</sup>
23. For financial audits conducted under AUASB Standards, the public sector auditor applies the Australian Auditing Standards (ASAs) relevant to the engagement. As described in the Preamble to AUASB Standards<sup>7</sup>, AUASB Standards are:
  - (a) neutral with respect to the audited or reviewed entity’s sector and size; and
  - (b) intended to be applied, as appropriate, to all audit, review, assurance and related service engagements conducted by an auditor or audit firm in both the public and private sectors<sup>8</sup>.

The application and explanatory material in ASAs may contain considerations specific to public sector entities.

24. 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 a financial report in accordance with

<sup>6</sup> INTOSAI Standard ISSAI 100 *Fundamental Principles of Public-Sector Auditing*, paragraph 22.

<sup>7</sup> See Auditing Standard ASA 101 *Preamble to AUASB Standards*, paragraphs A11-A15.

<sup>8</sup> In the public sector, “audit firm” is to be read as referring to a public sector equivalent, for example, an Auditor-General’s Audit Office.

the ASAs. Given the ASAs are sector neutral, these additional responsibilities are not dealt with in the standards. They may be dealt with in standards or guidance issued by government audit agencies.<sup>9</sup>

25. The scope of an annual audit in the public sector may include, in addition to the audit of the financial report of a public sector entity, an audit of service performance (for example, an audit of annual performance information or performance statements) and/or elements of a compliance engagement (for example, reporting on compliance with key legislation). A public sector auditor may also perform other discretionary assurance engagements such as performance audits, reviews or assurance engagements on controls (refer to paragraph 29 below).
26. Specific requirements may exist within the legislation governing the audit mandate, for example, the public sector auditor may be required to report directly to a minister, the Legislature or the public if the entity attempts to limit the scope of the audit. Furthermore, law or regulation may establish additional reporting requirements for the auditors of public sector entities, for example, to prepare a separate report on instances of non-compliance with law or regulation to the Legislature or other governing body, or communicating such instances in the auditor's report on the financial report.
27. In the public sector, there are many users of financial information including, but not limited to, the audited entity, ratings agencies, analysts, lending institutions, service providers and recipients, parliament, ministers and the public. In order to meet the information requirements of a broad range of users, a public sector auditor's mandate may require, or allow for, reporting on non-compliance with laws or regulations and unacceptable conduct (such as lack of probity) in the public sector. Auditors-General may elect or may be required to address probity and public interest considerations in their annual financial audits. This may necessitate a further broadening of the scope of an audit beyond the scope envisaged by the ASAs under which the audit is performed. The broadening of scope may present a challenge for the auditor in determining how to effectively report on the outcome of any additional work the auditor may decide to undertake within the structure of the opinion normally required by the relevant ASAs.
28. The objectives of a financial audit in the public sector therefore may be broader than expressing an opinion on whether the financial report has been prepared, in all material respects, in accordance with an applicable financial reporting framework. The ASAs and ASAEs provide minimum requirements and application material; however, as they are written to be sector neutral, additional guidance may be required to support the broader scope of engagements undertaken in the public sector to promote consistency.

## **Other Assurance and Assurance Related Engagements**

29. For other public sector assurance and assurance related engagements required to be conducted under AUASB Standards, the public sector assurance practitioner applies the relevant requirements of the applicable AUASB Standard relevant to the engagement. For example:
  - Reviews of financial reports or historical financial information (limited assurance engagements) — refer to the applicable Standards on Review Engagements.

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<sup>9</sup> See ASA 200, paragraph A59. In Australia, the term “government audit agencies” refers to Commonwealth, State or Territory Auditors-General.

- Assurance engagements on subject matters other than historical financial information — refer to Standard on Assurance Engagement ASAE 3000.<sup>10</sup>
- Compliance engagements — refer to Standard on Assurance Engagement ASAE 3100.<sup>11</sup>
- Assurance Engagements on Controls — refer to Standard on Assurance Engagement ASAE 3150.<sup>12</sup>
- Performance engagements — refer to Standard on Assurance Engagement ASAE 3500.<sup>13</sup>

### **Addressing Challenges associated with applying AUASB Standards in the Public Sector**

30. As noted in paragraph 23, AUASB Standards are designed to be neutral with respect to the sector and the size of the entity subject to the engagement, and are intended to be applied, as appropriate, to engagements in both the public and private sectors.
31. Where appropriate, additional considerations specific to the public sector are included within the application and other explanatory material of AUASB Standards. These additional considerations assist in the application of the requirements of the standards in such engagements. However, these considerations and associated guidance are not extensive and, as a result, the standards focus largely on engagements undertaken in the private sector where the objective is to form a conclusion in respect of compliance with a reporting framework.
32. Due to the differences between engagements undertaken in the public and private sectors, public sector auditors and assurance practitioners may face challenges in applying the AUASB Standards in the public sector. For example, practitioners may need to apply professional judgement in:
  - interpreting terminology used in AUASB Standards that is not usually found in the public sector, for example, terms such as “client”, “listed entity”, “firm”, “partner”, “engagement partner” and “lead assurance practitioner”.
  - applying AUASB Standards in delivering audit mandates established within legislation.
  - distinguishing a compliance engagement from a financial audit with elements of compliance with law or regulation.
  - determining materiality levels for public sector engagements where, for example, application of private sector benchmarks may not be appropriate and where the impact of qualitative considerations may be more prevalent.
  - identifying and communicating matters required to be reported by law or regulation within the structure of the opinion promulgated by the relevant AUASB Standards.

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<sup>10</sup> See ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

<sup>11</sup> See ASAE 3100 *Compliance Engagements*.

<sup>12</sup> See ASAE 3150 *Assurance Engagements on Controls*.

<sup>13</sup> See ASAE 3500 *Performance Engagements*.

- complying with AUASB Standards in circumstances where it may be against the public interest to disclose certain sensitive information in publicly released reports.

## Structure of Topic Specific Guidance

33. Topic specific guidance included in this GS is structured as follows:

**(a) Application**

This section clarifies how the topic specific guidance is to be used and for what purpose it has been developed, and identifies:

- the relevant AUASB Standard the guidance applies to; and
- the type of engagement (or combination thereof) and, where relevant, the subject matter it addresses.

It includes a clear statement that the GS:

- provides supplementary guidance in relation to the AUASB Standard it applies to and that it does not contain any further requirements for the conduct of the public sector engagement; and
- is to be read and applied together with the relevant AUASB Standard.

**(b) Introduction (where applicable)**

Topic specific guidance may include further introductory material to provide context relevant to a proper understanding of the topic specific supplementary guidance. Introductory material may include, as necessary, such matters as explanation of the:

- purpose and scope of the supplementary guidance, including how the guidance relates to other segments of the GS; and
- topic specific subject matter.

**(c) Scope**

This section identifies the specific paragraphs or sections of the AUASB Standard the supplementary guidance relates to.

**(d) Definitions**

Definitions necessary to understand guidance provided in this GS are included with the topic specific guidance it relates to.

**(e) Guidance**

This section sets out supplementary application and other explanatory material to assist the auditor/assurance practitioner to achieve the objectives of the relevant AUASB Standards.

## **Drafting Conventions**

34. The following drafting conventions apply to guidance material included in this GS:
- (a) Words such as “should”, “shall” or “must”, or any other term that denotes something as a mandatory requirement, are not to be used, except when repeating or referring to the requirements from relevant AUASB Standards.
  - (b) Guidance supports the general requirements and application and explanatory material contained in AUASB Standards, and:
    - (i) does not extend the requirements of the public sector auditor/assurance practitioner as stated in the AUASB Standards;
    - (ii) refers to the requirements in the AUASB Standards to which the guidance is supplementary; and
    - (iii) is consistent with the relevant AUASB Standards the guidance relates to.
  - (c) The present tense of verbs is used when it is the best form of expression. Use of the present tense does not create or imply mandatory requirements.
  - (d) The word “including” means a list of items or examples is provided but the list does not purport to contain all relevant items or examples and intentionally is not exhaustive.

## **Auditing Standard ASA 210 *Agreeing the Terms of Audit Engagements***

### **Application**

35. This section of the GS provides supplementary application and other explanatory material in relation to selected issues identified as presenting challenges in applying Auditing Standard ASA 210 *Agreeing the Terms of Audit Engagements* in the public sector. It does not contain any further requirements for the conduct of the audit. It is to be read and applied together with ASA 210.

### **Introduction**

36. ASA 210 deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. This includes:
- (a) establishing that certain preconditions for an audit are present before accepting the engagement; and
  - (b) confirming that there is a common understanding between the auditor and the entity of the terms of the audit engagement.
37. The preconditions for an audit are defined in ASA 210, paragraph 4, to mean the use by management<sup>14</sup> of an acceptable financial reporting framework in the preparation of the financial report and the agreement of management to the premise<sup>15</sup> on which an audit is conducted.
38. In the public sector, law or regulation governing the operations of public sector audits generally mandate the appointment of a public sector auditor and commonly set out the public sector auditor's responsibilities, functions and powers, including the power to access an entity's records and other information. Law or regulation may also prescribe other aspects of the terms of the audit engagement, including the objective and scope of the audit and the responsibilities of management. ASAs do not override law or regulation in such matters.
39. Where the public sector financial audit is mandated by legislation, the public sector auditor cannot avoid such an obligation and, consequently, may not be in a position to not accept (that is, to decline) or not continue (that is, to withdraw from) the engagement. The public sector auditor may be required to perform these types of audits whether or not the ASA 210 preconditions for the audit exist and whether or not management's agreement on the terms of the engagement has been obtained.
40. Consequently, the use of engagement letters may not be a widespread practice in the public sector for audits mandated by legislation. Nevertheless, there may be benefit in communicating a common understanding of the terms of the audit engagement between the auditor who is carrying out the audit and those charged with governance of the public sector entity, to avoid misunderstandings with respect to the engagement and to provide for an efficient and quality audit to be carried out.

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<sup>14</sup> Consistent with ASA 210, references to "management" should be read hereafter as "management and, where appropriate, those charged with governance".

<sup>15</sup> See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph 13(j).

41. Use of ASA 210 terminology such as to “accept” or “continue” an audit engagement, or to “agree” the terms of an engagement with management may be problematic in the public sector context for audits mandated by law or regulation.
42. This section of the GS provides additional guidance to reflect the public sector perspective on ‘agreeing’ the terms of financial audit engagements undertaken in the public sector.

### **Scope of ASA 210 Supplementary Guidance**

43. This section of the GS provides supplementary guidance for public sector auditors related to the following requirements of ASA 210:
  - (a) Preconditions for an Audit – Obtain agreement of management that it acknowledges and understands its responsibility (ASA 210, paragraph 6(b)).
  - (b) Agreement on Audit Engagement Terms (ASA 210, paragraphs 9-13).

### **Guidance**

#### **Preconditions for an Audit**

##### *Obtain Agreement of Management that it Acknowledges and Understands its Responsibility (ASA 210, paragraphs 6(b) and 12)*

44. An audit in accordance with ASAs is conducted on the premise that management has acknowledged and understands that it has the responsibilities set out in paragraph 6(b) of ASA 210. To avoid misunderstanding about the respective responsibilities of management and the auditor, ASA 210, paragraph 6(b), requires the auditor to obtain the agreement of management that it acknowledges and understands these responsibilities. In the private sector, this acknowledgement from management is usually obtained as part of agreeing and recording the agreed terms of the audit engagement in an engagement letter or other suitable form of written agreement, in accordance with the requirements of ASA 210, paragraphs 9-12.
45. However, the terms of an audit engagement in the public sector are normally mandated by legislation and therefore not subject to traditional contractual agreement with management. The legislated right in itself is an implicit agreement between the parties of the terms of the engagement. ASA 210 addresses this situation and outlines that if, in the circumstances described in paragraphs 10 and 11 of the Standard, the public sector auditor concludes that it is not necessary to issue an engagement letter or other suitable form of written agreement, the auditor is required only to obtain the acknowledgement of management that it understands that it has the responsibilities set out in paragraph 6(b) of the Standard.
46. In accordance with paragraph 12 of the Standard, the written acknowledgement from management may use the wording of the law or regulation if such law or regulation establishes responsibilities for management that are equivalent in effect to those described in paragraph 6(b) of the Standard. For those responsibilities that are not prescribed by law or regulation such that their effect is equivalent, the written acknowledgement uses the description in paragraph 6(b) of the Standard.
47. When obtaining the agreement of management that it acknowledges and understands its responsibility as required in ASA 210, paragraph 6(b), the public sector auditor also takes into account the fact that the responsibilities of management in the public sector may be broader, and there may be increased value in formalising the acknowledgement and understanding of such responsibilities.

## **Agreement on Audit Engagement Terms**

### **Legislatively Mandated Financial Audits**

#### *Agreeing the Terms of the Audit Engagement (ASA 210, paragraph 9)*

48. The terms of an audit engagement in the public sector are normally mandated by legislation and thus not subject to requests from, and agreement with, management. Therefore, ASA 210, paragraph 9, is not relevant in these circumstances.

#### *Engagement Letter or Other Form of Written Agreement (ASA 210, paragraphs 10-11, 13)*

49. Whether or not to formally record the terms of the engagement in an engagement letter or other suitable form of written agreement depends on whether law or regulation prescribes in sufficient detail the matters described in ASA 210, paragraph 10.
50. If law or regulation prescribes in sufficient detail the matters described in paragraph 10 of the Standard, paragraph 11 of the Standard permits the auditor to include in the engagement letter only reference to the fact that such law or regulation applies and that management acknowledges and understands its responsibilities as set out in paragraph 6(b).
51. In circumstances where paragraph 11 of the Standard applies, the public sector auditor is therefore not required to issue a full engagement letter<sup>16</sup> or to obtain management's formal agreement to the terms of the engagement.<sup>17</sup> However, the public sector auditor is still required to obtain the written acknowledgement from management that it understands that it has the responsibilities set out in paragraph 6(b) of the Standard (see paragraphs 44-47 above).
52. For paragraph 11 to apply, ASA 210 requires the relevant law or regulation includes all the elements outlined in paragraph 10 of the Standard and prescribe in sufficient detail the terms of the audit engagement. The law or regulation describing the elements in paragraph 10 may be from different sources.
53. Where law or regulation does not include all the elements outlined in paragraph 10 of the Standard or is not sufficiently detailed, paragraph 11 of the Standard does not apply and the public sector auditor will be required to include the relevant detail in an engagement letter (or equivalent form of communication) in order to comply with ASA 210, paragraph 10.
54. In circumstances where paragraph 11 of the Standard applies (see paragraphs 50-52 above), the public sector auditor may nonetheless consider that there may be benefit in communicating the matters described in paragraph 10 of the Standard in an engagement letter (or equivalent form of communication) for the information of management. The objective of the public sector auditor in documenting and communicating the terms of the engagement in these circumstances, is to confirm that there is a common understanding of the terms between the auditor who is carrying out the audit and management of the public sector entity, to clarify any matters that may be misunderstood<sup>18</sup> and to provide for an efficient and quality audit to be carried out.

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<sup>16</sup> That is, an engagement letter that includes all the elements outlined in paragraph 10 of the Standard.

<sup>17</sup> If the circumstances described in ASA 210, paragraph 11, applies to the engagement, there is no requirement for the auditor to document the reasons why an engagement letter that includes all the elements outlined in paragraph 10 of the Standard has not been issued in accordance with the requirements of paragraphs 9-10, as the requirement is not relevant in the circumstances of the engagement. See ASA 101, paragraphs A41-A43.

<sup>18</sup> For example, such communication may assist to avoid misunderstanding about the respective responsibilities of management and the public sector auditor.

55. Use of an engagement letter (or equivalent form of communication) that draws together the detail of the terms of the engagement may be particularly beneficial where there are matters that are unique to the engagement, or where the matters described in paragraph 10 of the Standard are located in more than one piece of legislation.
56. In these circumstances, the engagement letter (or equivalent form of communication) is not an agreement (contract) nor is it an audit proposal, and neither the public sector entity nor the public sector auditor can use the engagement letter as a vehicle to negotiate or vary the terms of the engagement in the letter. The engagement letter (or equivalent form of communication) communicates the terms of the engagement, as determined under law or regulation, to the public sector entity. The auditor is required to obtain acknowledgement that management understands its responsibilities - not agreement of the terms of the engagement outlined in the letter.
57. Documentation of the terms of the engagement cannot reduce obligations imposed by law or regulation and the public sector auditor is required to refer to the applicable provisions of the law in undertaking the engagement.

### **Form and Content of Engagement Letter or Equivalent Communication**

58. As noted in ASA 210, paragraph A23, it is in the interests of both the public sector entity and the public sector auditor that an engagement letter or equivalent communication is issued before the engagement commences to help avoid misunderstandings with respect to the engagement.
59. On recurring engagements, the public sector auditor applies professional judgement to determine whether there is a need to periodically re-issue the engagement letter and/or obtain re-acknowledgement from management that it understands its responsibilities, for example, taking into account the factors outlined in ASA 210, paragraph A30.
60. Typically, engagement letters issued for new recurring engagements may represent a standing arrangement until such time as the public sector auditor issues a new letter due to changes in the conditions or the scope of the engagement, or significant changes in the senior management of the public sector entity or in management's responsibilities.
61. The public sector auditor may also consider drafting an engagement letter that extends beyond one year. For example, an Auditor-General may decide to publish an engagement letter to Parliament for the life of the Parliament, although no specific response is required or received back.
62. The form and content of the engagement letter may vary according to the nature of the engagement, the terms of appointment of the public sector auditor, and the extent to which the terms of the engagement are prescribed in law or regulation, and may be in a form different to a traditional engagement letter. For example, as detailed in the previous section, in circumstances where law or regulation mandate the appointment of a public sector auditor and prescribe in sufficient detail the terms of the engagement, the auditor is not required to issue an engagement letter that includes all the elements outlined in paragraph 10 of the Standard.
63. In circumstances where the public sector auditor concludes that it is not appropriate or necessary to issue a traditional engagement letter or other form of written agreement, the terms of the engagement and other arrangements may be communicated to management at preliminary (entrance) meetings with the entity. Different jurisdictions may use different approaches and different documents<sup>19</sup> for this purpose.

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<sup>19</sup> For example, overall planning or strategy type documents are often used to communicate the objective and scope of the engagement.

64. The public sector auditor requests management to acknowledge receipt of the engagement letter (or equivalent communication) and that it acknowledges and understands its responsibilities. The auditor may also consider seeking written acknowledgement from management of other aspects of the terms of the engagement<sup>20</sup> or arrangements concerning the engagement. Typically, the auditor obtains such acknowledgement for new engagements, once-off engagements or where there has been changes to the scope of the engagement or changes in senior management of the entity.
65. In the public sector, there may be additional matters besides the examples listed in ASA 210, paragraphs A24-A26, that public sector auditors have to report if they become aware of them during the course of the audit and that may be relevant to the engagement letter. When relevant, other audit objectives stipulated by the mandate may also be included in the engagement letter (or equivalent communication).
66. ASA 210, paragraph A25, recommends that it may be helpful for the auditor to make reference in the terms of the audit engagement to the possibility of communicating key audit matters in the auditor's report. Public sector auditors may be required to, or may decide to, communicate key audit matters to other parties, such as the Legislature, in addition to management or those charged with governance when relevant legal provisions do exist.

### **Audits Conducted By Arrangement**

67. In addition to legislatively mandated audits, legislation may enable a public sector auditor to undertake audits and audit-related services by arrangement – that is, a public sector entity, a minister or the Legislature may request an audit or review under an agreement with the public sector auditor. These engagements may be requested as a once-off arrangement, or as an annually recurring service. These types of engagements are often referred to as “by-arrangement” or “by-request” audits or reviews. A public sector auditor may only undertake these types of engagements where it falls within the auditor's legislative powers.
68. As these types of engagements are not legislatively mandated, the public sector auditor, in limited circumstances, may have discretion on whether to accept, or continue with, the engagement (for example, when requested by a public sector entity). However, legislation may provide for the public sector auditor to undertake these types of engagements at the request or direction of a Minister or the Legislature. Where this is the case, the public sector auditor will not generally have discretion to decline the request and may not be required to obtain agreement from the auditee of the terms of the engagement.
69. For these types of engagements, the public sector auditor complies with the relevant requirements of ASA 210 as applicable to the engagement. This may include agreeing the terms of the engagement, which includes the matters set out in paragraph 10 of ASA 210, with management and recording the agreed terms in an engagement letter (or equivalent communication) before any assurance work is undertaken.

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<sup>20</sup> For example, the objective and scope of the engagement, the responsibilities of the auditor and identification of the applicable financial reporting framework for the preparation of the financial report.

## Auditing Standard ASA 570 *Going Concern*<sup>21</sup>

### Application

70. This section of the GS provides supplementary application and other explanatory material in relation to selected issues identified as presenting challenges in applying Auditing Standard ASA 570 *Going Concern* in the public sector. It does not contain any further requirements for the conduct of the audit. It is to be read and applied together with ASA 570.

### Introduction

71. Financial reporting frameworks applicable in Australia generally require the adoption of the going concern basis of accounting in financial reports, except in circumstances where management of an entity intends to liquidate the entity or to cease trading or has no realistic alternative in doing so. This concept applies even when there are uncertainties about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in the future. However, these reporting frameworks require such uncertainties to be disclosed in the financial report when they are material.<sup>22</sup>
72. Under the going concern basis of accounting, the financial report is prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.<sup>23</sup>
73. ASA 570 clarifies that management's use of the going concern basis of accounting is also relevant to public sector entities.<sup>24</sup> However, as the concept of going concern as described in AASB 101/ASA 570 is generally more relevant to for-profit commercial entities (whether operating in the private sector or public sector), it may need to be interpreted and applied differently for public sector entities responsible for providing significant government functions on a non-commercial basis.
74. Cash flow projections and other financial metrics-based criteria traditionally used in making going concern assessments are often less relevant in the public sector for those entities that are funded by government through annual appropriations and grants, where the focus is more on whether an entity is sufficiently supported by the government and to what extent the continuation of its functions is protected. Cessation of a public sector entity is most likely to result from a government policy (political) decision to discontinue an entity in its entirety, merge or amalgamate one or more public sector entities, privatise the entity, or privatise all or part of the functions delivered by the entity. Therefore, the events or conditions which may cast significant doubt on a public sector entity's ability to continue as a going concern may be different to the factors faced in the private sector.
75. To effectively plan and implement audit procedures that appropriately respond to going concern related risks, public sector auditors require a clear understanding of how the concept of going concern is applied to the public sector entity they are auditing. A lack of

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<sup>21</sup> In developing this section of the GS, the AUASB considered relevant guidance to public sector auditors on the topic of going concern included in the UK Financial Reporting Council's Statement of Recommended Practice – Practice Note 10 *Audit of financial statements and regularity of public sector bodies in the United Kingdom* (2020).

<sup>22</sup> For example, see Australian Accounting Standard [AASB 101 Presentation of Financial Statements](#), paragraphs 25-26.

<sup>23</sup> ASA 570, paragraph 2.

<sup>24</sup> ASA 570, paragraph A2, provides limited application guidance relevant to the public sector in the form of examples of situations where going concern risks may arise in the public sector and of events and conditions that may cast significant doubt on an entity's ability to continue as a going concern.

understanding of how the going concern concept applies in the context of public sector reporting may lead to public sector auditors applying unnecessary or inappropriate audit procedures.

76. Public sector auditors may need to obtain a detailed understanding of what, if any, going concern risks apply to the public sector entity and on what basis the going-concern assumption is appropriate. For example, whilst some public sector entities may face funding shortfalls or liquidity concerns, management's use of the going concern assumption may still be appropriate based on the assumption that the functions provided by the public sector entity will continue within government, even if not within that entity if it is abolished. As a consequence, the nature and source of evidence public sector auditors obtain may be different when compared to the private sector.
77. Whilst the public sector auditor must determine that the use of the going concern basis of accounting is appropriate for each public sector entity in accordance with the requirements of ASA 570, there also may be other forms of public reporting (such as periodic reports to parliament covering the whole of government or specific public sector segments) where the public sector auditor may highlight significant financial sustainability issues relating to an individual or group of public sector agencies. Though reporting on these financial sustainability issues may be deemed in the public interest, it is not a substitute for any reporting requirements in ASA 570 and falls outside the scope of this GS.

### Scope of ASA 570 Supplementary Guidance

78. This section of the GS provides supplementary guidance to reflect the public sector perspective on going concern related to:
  - (a) The concept of going concern in the public sector (ASA 570, paragraphs 2 and A2).
  - (b) Risk assessment procedures and related activities (ASA 570, paragraphs 10-11 and A3-A4, A7).
  - (c) Evaluating management's assessment (ASA 570, paragraph 12 and A8-A10).
  - (d) Additional audit procedures when events or conditions are identified (ASA 570, paragraphs 16 and A16-A19).
  - (e) Auditor conclusions and reporting (ASA 570, paragraphs 17-24 and A21-A35)

### Definitions

79. For the purpose of this GS, the following terms have the meanings attributed below:
  - (a) General Government Sector (GGS) – Defined in AASB 1049<sup>25</sup> (Appendix A) and the ABS GFS Manual<sup>26</sup>.
  - (b) 'Machinery of Government' (MOG) change – A MOG change refers to a restructure of existing government arrangements in the public sector that may involve the reallocation or reorganisation of government functions, responsibilities and resources between government-controlled entities. MOG changes may be made for a range of reasons, including to support the policy and/or political objectives of government. MOG changes can vary in scope and complexity and can involve a combination of:

<sup>25</sup> Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

<sup>26</sup> The Australian Bureau of Statistics publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods*.

- abolishing government departments and/or government-controlled statutory bodies;
- creating new government departments and/or government-controlled statutory bodies;
- merging/amalgamating one or more government departments or government-controlled statutory bodies; and/or
- moving functions between government departments and/or government-controlled statutory bodies.

MOG changes may occur at any time, often with little or no notice; however, significant MOG changes usually occur immediately following an election when a new government announces its new ministry and any new administrative arrangements. Changes may also transpire as a result of a legislative change or a government policy decision, such as to privatise a government-controlled entity, transfer a function or outsource a function.

- (c) Public Corporations<sup>27</sup> (and quasi-corporations) – The terms ‘Public Corporation’ and ‘quasi-corporation’ are defined in AASB 1049 (Appendix 1) and the ABS GFS Manual. Public Corporations are typically categorised into Public Financial Corporations (PFC) and Public Non-Financial Corporations (PNFC).
- (d) Public sector – The combination of the GGS and Public Corporations.

## Guidance

### Concept of Going Concern in the Public Sector (ASA 570, paragraphs 2, A2)

80. In the public sector it may be necessary to consider more than the financial health of an entity based on cash flow projections or other financial metrics-based criteria traditionally used in making going concern assessments in the private sector. There are many examples where public sector entities continually fail tests of liquidity, have accumulated deficits and negative equity, yet continue to operate and deliver their functions as they continue to receive appropriation or grant funding from government.
81. In assessing the appropriateness of the going concern basis of accounting in the public sector, consideration of whether the functions provided by the public sector entity will continue within government, even if not within that entity if it is abolished, is often more relevant in assessing going concern risk than whether the particular public body will continue to exist in its current structure or whether the particular entity is financially sustainable.
82. Cessation of a public sector entity is most likely to result from a government policy (political) decision. As most public sector entities undertake their functions in accordance with statutory requirements imposed by legislation, an act/regulation of Parliament would generally be required to amend or discontinue such functions. However, this may vary across jurisdictions where MOG changes may be permitted using other mechanisms.
83. As the majority of public sector entities exist to deliver essential public functions, it may be reasonable to assume that those functions will continue to be delivered by the public sector, unless there is evidence to the contrary. Therefore, in the absence of any clearly expressed government or parliamentary intention to scale back or discontinue an entity’s functions, it may be reasonable to assume that a parliament will continue to provide funding annually through the parliamentary appropriation (budget) process. A government can also intervene to

<sup>27</sup> Some jurisdictions may use alternative terminology to refer to Public Corporations, such as Government Owned/Controlled Corporations, Government Trading Enterprises or Government Business Enterprises.

increase funding to an entity or adopt a different delivery model to ensure continuity in provision of functions.

84. Functions are frequently transferred or amalgamated in MOG changes. This may result in the discontinuation of a public sector entity. In these circumstances it may still be appropriate for the discontinued entity to adopt the going concern basis of accounting where it is anticipated that the underlying functions it provides will continue to be delivered by another public sector entity and its assets and liabilities realised in the normal course of business. Whether or not the going concern basis of accounting is appropriate in preparing the financial report of the discontinued entity will depend on the specific circumstances affecting the entity.<sup>28</sup>
85. Certain public sector entities may be expected to operate in a competitive market on a commercial basis and to be primarily self-funded (that is, not reliant on government appropriations and/or grants to fund their operations). For these types of entities, consideration of going concern can be similar to that applied to for-profit commercial entities in the private sector and ASA 570 is generally fit-for-purpose.

### **Risk Assessment Procedures and Related Activities** (ASA 570, paragraphs 10-11, A3-A4, A7)

86. In performing the applicable ASA 315<sup>29</sup> risk assessment procedures as required under ASA 570, paragraphs 10-11, the public sector auditor determines a proportionate approach to going concern risk, based on the auditor's understanding of the public sector entity and its environment, the requirements of the applicable financial reporting framework related to going concern, and the entity's system of internal control (for example, in relation to oversight and governance over management's assessment of going concern and the controls in place to identify events or conditions relevant to going concern).
87. In forming a view on a public sector entity's ability to continue its operations, the public sector auditor's consideration of going concern embraces two separate, but sometimes overlapping, factors:
  - the more likely risk associated with changes in policy direction (for example, where there is a change in government); and
  - the less common operational or business risk (for example, where an entity has insufficient working capital to continue its operations at its existing level and is unable to raise additional capital).<sup>30</sup>
88. ASA 570, paragraph 10, includes a requirement for the public sector auditor, as part of performing ASA 315 risk assessment procedures, to consider whether events or conditions exist that may cast significant doubt on the public sector entity's ability to continue as a going concern. The auditor exercises professional judgement to consider whether the examples of indicators identified in paragraph A3 of the Standard are relevant in the circumstances and, if relevant, whether management has included these factors in their going concern assessment. Also, the auditor determines whether there are public sector specific mitigating factors that may need to be taken into consideration.
89. In the public sector, the risk associated with changes in policy direction may be greater than any operational or business-related risks. ASA 570 risk indicators may be more relevant to self-funded corporate and non-corporate entities in the public sector that operate on a commercial basis. These indicators may be less relevant to those government agencies receiving annual appropriations/grants (budget funded).

<sup>28</sup> Further guidance is provided in paragraphs 115-120 of this GS.

<sup>29</sup> See ASA 315 *Identifying and Assessing the Risks of Material Misstatement*.

<sup>30</sup> INTOSAI GUID 2900, paragraph 25.5.

90. To minimize the risk of changes in government policies not coming to the public sector auditor's attention which could impact on the going concern assumption, the auditor may ascertain through inquiry and review whether:
- the government has announced its intention to review an area of policy affecting the public sector entity;
  - a review has been announced and is in progress;
  - a review has indicated that the public sector entity could be restructured or that an entity's future may be re-examined; or
  - the government has communicated its policy to privatise the activities of the public sector entity.<sup>31</sup>
91. Considerations specific to the public sector that may impact the public sector auditor's assessment of the going concern assumption may include, for example:
- How the entity is funded and the extent to which the entity is reliant on government funding (economically dependent on government versus self-funded and operating on a commercial basis).
  - Nature of goods and services provided by the entity (for example, the government is unlikely to not continue to provide health care, provide utilities or continue to register vehicles).
  - Uncertainties regarding on-going government funding, for example, an expiring funding agreement or omission from the budget.
  - Budget announcements of plans to restructure/abolish/privatise public sector entities.
  - Policy decisions that affect the functions provided by the entity.
  - Legislative reform changing the legal structure of how functions are to be provided.
  - Whether the entity can be wound up without legislative change.
  - Timing of Royal Assent of legislation impacting an entity's operations or existence.
  - Estimates of revenue or the likelihood of continued revenue streams, including government funding and the donation base.
  - Changes to markets/reduction of customers for self-funded agencies.
  - Poor financial indicators for a fee for service entity.
92. The following are examples of mitigating factors to consider when assessing the validity of the going concern assumption:
- Entities at local government level are often required to maintain delivery of functions essential to local communities and may themselves be revenue-raising bodies (that is, have the power to levy rates or taxes) and may have the possibility, on application, of recovering losses over a period.
  - The existence of multi-year funding agreements or other arrangements that will ensure the continued operation of the entity.
  - A letter of financial support (or other similar direct confirmation) from a government agency or other parent entity able to provide such support.<sup>32</sup>

<sup>31</sup> INTOSAI GUID 2900, paragraph 25.6.

<sup>32</sup> See paragraphs 122-127 of this GS.

The public sector auditor includes their consideration of these factors in the conclusions they draw on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial report.

93. In addition to the audit procedures set out in ASA 570, the public sector auditor applies professional scepticism in reviewing the applicable legislative and reporting frameworks, Budget Papers, Budget announcements, media releases, statements of corporate intent, and government funding commitments. The auditor may also read official records of changes in policy and relevant proceedings of the legislature, parliamentary transcripts, gazettal notices, and inquire about matters addressed in proceedings for which official records are not yet available.

### **Budget-funded government-controlled entities in the GGS**

94. The term GGS is defined in paragraph 79 of this GS and typically includes public sector entities established by or through the Australian Constitution or an act/regulation of Parliament. Examples include government departments, local government authorities and other government-controlled statutory bodies that have a primary role to provide government functions, which are mainly non-commercial (non-market) in nature, for the collective consumption of the community. These entities are mainly funded by government through the transfer or redistribution of revenue (budget funded through annual appropriations and/or grants) which is financed by government through taxes and other compulsory levies, and through loans/bond issues<sup>33</sup>.
95. Given the statutory nature of these entities and the presumption that the functions provided by these entities will continue to be delivered by the public sector, going concern risk may be assessed as low on the basis that it can be assumed, in the absence of any clearly stated parliamentary or government intention to amend or discontinue such functions, that the government is likely to continue to provide the minimum amount of financial support necessary to continue these public functions. For these types of entities, the risk associated with changes in policy direction is likely to be greater than any operational or business-related risks.
96. Where continuation of the provision of a function in the future is anticipated, the use of the going concern basis of accounting is likely to be appropriate for these entities other than in exceptional cases (as examples, where an entity's functions are to be discontinued altogether and the entity abolished, or where an entity is to be privatised, or a public/private joint venture entered into). It is also unlikely that a material uncertainty related to going concern will exist in these circumstances – unless there is evidence to the contrary.
97. As the risk in relation to going concern may be lower in these circumstances, the public sector auditor's risk assessment procedures and evaluation of management's going concern assessment focus primarily on whether there is a parliamentary or government legislative intention to amend or discontinue service delivery, rather than around the financial sustainability of the public sector entity.
98. The public sector auditor's risk assessment procedures as required by ASA 570 may include consideration of:
- (a) the statutory nature of the entity and whether there is an expectation that the underlying functions delivered by the entity will continue to be delivered and funded by the public sector notwithstanding any decision to restructure existing government arrangements which may result in the discontinuance of the particular entity;

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<sup>33</sup> Referred to in the public sector as 'the borrowing program'.

- (b) the requirements of the applicable financial reporting framework related to going concern (including the requirements to account for and report on MOG changes);
  - (c) the entity's risk assessment process to identify events or conditions which may indicate that the functions provided by the entity may no longer continue (which is expected to be proportionate to the low risk that a material uncertainty related to going concern exists);
  - (d) factors the auditor may be aware of that could indicate that either the functions delivered by the entity will no longer be provided or that funding for these functions will be discontinued or significantly reduced.
99. The public sector auditor documents the auditor's consideration and assessment of the basis for, and validity of, any assumption that functions are likely to continue.
100. Where the public sector auditor's risk assessment concludes that it may be inappropriate to assume that the functions delivered by the entity will continue to be delivered by the public sector in the foreseeable future, for example, where there is an intention by the government to discontinue the entity's operations altogether (that is, to abolish the entity and cease its functions) or to transfer the delivery of such functions to outside the public sector by privatising the entity, the auditor may need to re-evaluate the planned audit procedures based on the revised consideration of assessed risks in relation to the going concern assumption, and perform alternative procedures to comply with the requirements of ASA 570.

### **Public sector entities not funded (or not fully funded) by appropriations or grants**

101. Certain public sector entities are expected to operate in a competitive market on a commercial basis and to be primarily self-funded (that is, not rely on government appropriations and/or grants to fund their operations). Many government business divisions may also be expected to recover their costs through commercial arrangements.
102. These entities operate in various legal forms such as statutory authorities formed by legislative instruments that define their role and purpose, Public Corporations and quasi-corporations<sup>34</sup>, trusts and joint ventures. These entities may be granted varying degrees of autonomy but are ultimately responsible to a relevant government minister. While some of the services provided by these entities would be considered essential services (for example, water delivery services) this is not the case for all.
103. These government-controlled entities and their subsidiaries are typically separate legal entities from the 'government' and going concern risks can arise from, for example, situations where these entities experience financial difficulties, when policy decisions are made that affect the functions provided by the entity, where government support is reduced or withdrawn, or a subsidiary entity is wound up as a result of a decision of the parent entity.
104. For these types of entities, consideration of going concern can be similar to that applied to for-profit commercial entities in the private sector (for example, the public sector auditor may consider knowledge of the business, financial ratios, future forecasts)<sup>35</sup> and ASA 570 is generally fit-for-purpose.
105. Some of these entities may not be financially sustainable on their own and be reliant or semi-reliant on government funding to continue operating in a competitive market. For example, certain Public Corporations that provide essential public services may receive 'Community Service Obligations' from a government (similar to a government subsidy) to compensate these entities for delivering uneconomical but essential services in remote areas or where these

<sup>34</sup> These terms are defined in paragraph 79 of this GS.

<sup>35</sup> See ASA 570, paragraph A3 for example indicators to consider.

entities are impacted by government policy decisions that disadvantage the entity in competing with private sector entities providing similar services.

106. A public sector auditor cannot assume that because an entity is operating in the public sector, a government will automatically support the entity should it experience financial difficulties. The determination of whether the going concern assumption is appropriate in the circumstances, will depend on the facts in each case. Whilst not all are applicable to public sector entities, the public sector auditor still considers the examples of events or conditions that, individually or collectively, may cast significant doubt on the public sector entity's ability to continue as a going concern included in ASA 570, paragraph A3, when determining the level of going concern risk. In particular, the public sector auditor considers whether, without government or other external assistance, the entity will be able to continue operating for at least one year from the date of the auditor's report.
107. In considering going concern for entities that are economically dependent on government funding to continue operating, in addition to the ASA 570 factors related to operational and business risk, the public sector auditor takes into consideration the statutory nature of the entity and the functions it delivers, and whether the underlying functions delivered by the entity are essential or key public functions that are expected to be delivered and funded by a government on a continuing basis. The auditor considers any factors that could signal that either the functions delivered by the entity will no longer be provided or significantly curtailed, or that funding for these functions may be discontinued or significantly reduced.

### **Evaluating Management's Assessment** (ASA 570, paragraphs 12, A8-A10)

108. ASA 570, paragraphs 4 and 6, clarifies that whenever the going concern basis of accounting is a fundamental principle in the preparation of a financial report as discussed in paragraph 2 of the Standard, the preparation of the financial report 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.
109. In the public sector, management may not always prepare a detailed or explicit going concern assessment, based on the assumption that a government will continue to support the entity regardless of its financial circumstances. Management may also provide only limited assessments, for example, by referring to a passed budget or appropriation bill as evidence that service delivery will continue in the foreseeable future.
110. ASA 570, paragraph 12, includes a requirement for the public sector auditor to evaluate management's assessment of the public sector entity's ability to continue as a going concern. As explained in paragraphs A8-A9 of the Standard:
  - (a) this assessment by management forms a key part of the auditor's consideration of management's use of the going concern basis of accounting; and
  - (b) it is not the auditor's responsibility to rectify the lack of analysis by management.
111. The degree of analysis by management in support of its assessment depends on the facts and circumstances of each entity. Given the legislative status of, and financial reporting frameworks applicable to, most entities in the public sector, it is likely that, unless there are indications that a government intends to amend or discontinue the delivery of public functions, management's assessment and the auditor's evaluation of management's assessment may be relatively straightforward. Nevertheless, management is still required to make this assessment and to explain the rationale in support of their assessment.
112. ASA 570, Paragraph A9, provides for circumstances where management may reach a conclusion that the going concern basis of accounting is appropriate without performing a detailed analysis, for example, when there is a history of profitable operations and a ready

access to financial resources. In these circumstances, the auditor's evaluation of management's assessment of going concern may be made without performing detailed evaluation procedures if the auditor's other audit procedures (which will include the risk assessment procedures referred to in the previous section) are sufficient to enable the auditor to conclude on whether management's use of the going concern basis is appropriate in the circumstances.

**Additional Audit Procedures when Events or Conditions are Identified** (ASA 570, paragraphs 16, A16-A19)

113. In circumstances where there has been an announcement or decision made regarding a MOG change, or a change in legislation or funding arrangements, the public sector auditor performs additional audit procedures in accordance with ASA 570, paragraph 16, to determine whether or not a material uncertainty related to going concern exists.
114. In these circumstances, sufficient appropriate audit evidence in support of management's judgements about going concern can usually be obtained by the public sector auditor and may include gazettal notices, parliamentary transcripts, correspondence with government bodies regarding funding, government budget announcements and Budget Papers.
115. When the public sector auditor becomes aware of information that indicates that a government or parliament has made, or intends to make, a decision which will likely impact the continued operational existence of a public sector entity, the auditor determines whether the functions being provided by the entity to be discontinued will continue to be provided by another public sector entity.
116. Functions are frequently transferred or amalgamated in MOG changes. This may result in the discontinuation of a public sector entity. Whether or not the going concern basis of accounting is appropriate in preparing the financial report of the discontinued entity will depend on the specific circumstances affecting the public sector entity.
117. Where functions are transferred between government-controlled entities within the GGS, it may still be appropriate for the discontinued entity to adopt the going concern basis of accounting in preparing its final accounts. While legislative reform of this nature may change who manages/provides the function, there is considered to be no impact on the going concern assumption as functions are merely moved around within the government as a single legal entity and functions will continue to be delivered using the net assets transferred to the new or continuing entity. Unless there is evidence to the contrary, it can reasonably be assumed that the assets and liabilities will be realised in the normal course of business in the new or continuing entity – that is, at a fair or agreed value.
118. However, where there is evidence that a public sector entity's functions may be fully discontinued or where functions are transferred from a government-controlled entity in the GGS to a Public Corporation or to a government-controlled private sector entity, which are separate legal entities from the GGS, continued application of the going concern assumption in the discontinued entity may no longer be appropriate.
119. In circumstances where there has been an announcement or decision made to abolish a public sector entity, and legislation is required to be passed to cease the entity, the entity is usually treated as a going concern until the legislation has been enacted (that is, received Royal Assent). Where passage of legislation through Parliament is not required, the responsible Minister may be able to make changes via publication in the Government Gazette.
120. In circumstances where a government has only announced its intention to abolish a public sector entity, this will usually not be sufficient evidence that a government is demonstrably

committed to the policy/decision.<sup>36</sup> However, such announcements of a government's intentions, or where a Bill has been introduced to Parliament, are likely to give rise to a material uncertainty for which the public sector auditor considers whether it is necessary to include an Emphasis of Matter paragraph<sup>37</sup>.

### **Public sector entities not funded (or not fully funded) by appropriations or grants**

121. For public sector entities referred to in paragraphs 101-107 of this GS, traditional indicators and financial metrics used to assess going concern may be relevant and may signify that a material uncertainty exists, for example, in circumstances where an entity reports accumulated deficits, negative equity or a net liability position. In these circumstances, the public sector auditor performs additional audit procedures in accordance with ASA 570, paragraph 16, to obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists.

### **External Written Confirmations<sup>38</sup>**

122. Public sector auditors are aware that changes in government policy can have a significant impact on the status and functions of public sector entities. However, management and the auditor in most instances may not be aware of the strategic or legislative decisions which may impact an entity. Changes in government policy can occur at short notice and without consultation.
123. When considering appropriate audit procedures relevant to the requirement in ASA 570, paragraph 16, the auditor may consider whether to obtain direct written confirmation from a central government agency or parent entity regarding any plans that may impact the entity's continued operational existence and/or to confirm the existence, authority and enforceability of arrangements to provide or maintain financial support.<sup>39</sup>
124. When considering requesting such confirmation, the auditor is advised to take account of any constraints imposed by legislation or the political process.<sup>40</sup> Also, in many circumstances, confirmation that financial backing will continue, or future funding will be received, may not be sufficient as meaningful assurance on the future of an entity.<sup>41</sup>
125. When considering requesting direct confirmations, the public sector auditor considers that there may be circumstances where such confirmations may not be forthcoming. For example:
- MOG changes may occur at any time, often with little or no notice. As a result, the government of the day will not generally provide direct confirmation that nothing is likely to change in relation to financial backing or future funding.
  - A State or Australian Territory Government may also not be in a position to provide such confirmations as it may itself be highly dependent on, for example, GST funding with no control over changes to the distribution of the GST pool.

<sup>36</sup> The government has to demonstrate its commitment, and be sufficiently detailed, for example, via Cabinet approval or where no Cabinet approval, through other binding documentation such as contractual arrangements, evidence of engagement of experts, passing of legislation etc.

<sup>37</sup> Refer to Auditor Conclusions and Reporting in paragraphs 128-129 for further details.

<sup>38</sup> See ASA 570, paragraph A19. Includes a letter of financial support, comfort letter, letter of guarantee, letter of intent.

<sup>39</sup> See ASA 570, paragraph A19. In obtaining these confirmations, the public sector auditor complies with the requirements of ASA 505 *External Confirmations*.

<sup>40</sup> For example, a parent entity or government may have a policy of not providing letters of support.

<sup>41</sup> Paragraph 126 includes examples of matters to consider in evaluating the form and level of commitment provided by such confirmations. A promise to provide funding is not legally binding.

- Legislation may contain specific provisions that a government will not guarantee the debts or operations of, for example, a Public Corporation. In these circumstances, a central government department or other government agency will not be in a position to provide confirmation of continued financial support to these entities.
126. In circumstances where the public sector entity's continued use of the going concern basis of accounting is dependent on, for example, a letter of financial support, which the entity and/or public sector auditor was able to secure, the auditor exercises professional scepticism in evaluating the appropriateness and sufficiency of such confirmations as audit evidence. The auditor may consider the following matters:
- (a) whether the entity providing the letter of support has the authority to provide the support;
  - (b) whether the letter of support has been signed by a person with appropriate delegated authority to provide such support;
  - (c) whether the entity or entities that will be providing the support have the ability to cover the obligations of the entity receiving the support;
  - (d) whether the amount of support will be sufficient; and
  - (e) whether one or both parties can terminate the arrangement.<sup>42</sup>
127. If an adequate confirmation can be obtained, it may be reasonable to conclude that the going concern basis is appropriate. If such confirmation is not forthcoming or where the auditor questions its sufficiency as audit evidence, the auditor considers whether there is a material uncertainty that requires to be reported in the auditor's report.

#### **Auditor Conclusions and Reporting** (ASA 570, paragraphs 17-24, A21-A35)

128. ASA 570<sup>43</sup> requires the public sector auditor to evaluate, based on the audit procedures performed, whether sufficient appropriate evidence has been obtained to conclude on:
- (a) the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial report;
  - (b) whether a material uncertainty related to going concern exists;
  - (c) whether going concern matters are adequately disclosed in the financial report; and
- then to report in accordance with ASA 570 requirements.

ASA 570, [Aus] Appendix 1 includes a useful diagrammatic illustration of the links between going concern considerations and the types of audit opinions that may be appropriate in the circumstances.

129. In circumstances where the public sector auditor has concluded that no material uncertainty exists but the use of the going concern basis of accounting is dependent on a letter of support or other confirmation obtained from a related or other third party, or based on the assumption that a parliament may continue to provide funding to ensure continued delivery of essential public functions, the auditor may consider whether:
- (a) to issue an unmodified opinion;

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<sup>42</sup> See OAG NZ AG ISA (NZ) 570, paragraph A1 (amended).

<sup>43</sup> See ASA 570, paragraphs 17-24.

- (b) it is necessary to include an Emphasis of Matter paragraph<sup>44</sup> in the auditor's report to draw the user's attention to the financial support/economic dependency note disclosure included in the entity's financial report; and
- (c) the matter is a Key Audit Matter<sup>45</sup> to be communicated in the auditor's report, in circumstances when the auditor decides to communicate key audit matters in the auditor's report.

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<sup>44</sup> See ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraphs 8-9.

<sup>45</sup> See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.

## **Auditing Standard ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information***

### **Application**

130. This section of the GS provides supplementary application and other explanatory material in relation to selected issues identified as presenting challenges in applying the ASA 220<sup>46</sup> definition of ‘Engagement Partner’ in the public sector. It does not contain any further requirements for the conduct of the audit. It is to be read and applied together with ASA 220.

### **Introduction**

131. The term Engagement Partner is defined in ASA 220 and ASQM 1<sup>47</sup> as “the partner or other individual, appointed by the firm, who is responsible for the audit engagement and its performance, and for the auditor’s report [emphasis added] that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.” In accordance with these Standards<sup>48</sup>, ‘Engagement Partner’, ‘partner’ and ‘firm’ is to be read as referring to their public sector equivalents where relevant.
132. In the public sector, an Auditor-General, or other suitably qualified individual appointed on behalf of the Auditor-General,<sup>49</sup> may act in a role equivalent to that of the Engagement Partner with overall responsibility for a public sector audit.<sup>50</sup>
133. Challenges may arise in relation to some aspects of ASA 220 in the public sector when the individual assigned responsibility for the audit engagement and its performance in practice, is not also the individual responsible for signing and issuing the auditor’s report. ASA 220 does not specify that the Engagement Partner has to sign the auditor’s report; nor does ASA 700<sup>51</sup> require this. Furthermore, ASA 700 does not include specific requirements as to the role and responsibilities of the individual responsible for signing and issuing the auditor’s report.

### **Scope of ASA 220 Supplementary Guidance**

134. This section of the GS provides supplementary guidance on:
- (a) the concept of Engagement Partner in the public sector (ASA 220, paragraph 12(a)); and
  - (b) the allocation of responsibilities under ASA 220 when the individual who is assigned responsibility for the audit engagement and its performance in practice, is not also the individual responsible for signing and issuing the auditor’s report.
135. Different scenarios may apply in the different jurisdictions in Australia depending on the applicable legislative mandate and chosen audit delivery model (for example, whether external audit service providers form part of the engagement team or not). Each Audit Office will work

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<sup>46</sup> ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* (March 2021).

<sup>47</sup> ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* (March 2021).

<sup>48</sup> ASA 220 and ASQM 1, footnote 3.

<sup>49</sup> An Auditor-General may or may not be a qualified accountant. Under section 1281 of the *Corporations Act 2001*, a person who holds office as the Auditor-General, or a person to whom the Auditor-General delegates the function or the power to conduct an audit, is taken to be registered as an auditor under the Act.

<sup>50</sup> ASQM 2 *Engagement Quality Reviews* (March 2021), paragraph A11 (amended).

<sup>51</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*.

within any delegation or authorisation clauses provided within their legislation to establish policies or procedures to ensure the objectives of ASA 220 are achieved.

136. Depending on the legislative mandate in each jurisdiction, an Auditor-General may not be required to perform the audit of a public sector entity. Instead, the public sector entity may engage a private sector auditor or firm to perform the audit. In these circumstances, the engaged auditor or firm has overall responsibility for the audit engagement and its performance, and will sign and issue the auditor's report. These types of engagements fall outside the scope of this section, as ASA 220 is fit for purpose in these circumstances.

## Definitions

137. For the purpose of this GS, the following terms have the meanings attributed below:

- (a) **Audit Office of the Auditor-General (Audit Office)** – Public sector equivalent of 'firm' (as defined in 137(h) below). Auditor-General and staff employed by the Auditor-General to perform audit engagements or audit procedures for or on behalf of the Auditor-General. The Audit Office may be assisted by an audit service provider (as defined in 137(c) below) engaged to perform audit engagements or audit procedures for or on behalf of the Auditor-General.<sup>52</sup>
- (b) **Auditor-General** – the individual appointed as the Auditor-General (the appointed statutory auditor) or acting as such.
- (c) **Audit service provider**<sup>53</sup> – Private sector auditor or firm who has been contracted to perform an audit engagement or audit procedures for or on behalf of the Auditor-General.
- (d) **Engagement Leader** – In the context of this GS, the term 'Engagement Leader' is used to refer to the individual assigned responsibility for the audit engagement and its performance in practice, and who is either the Signing Officer (as defined in 137(i) below) or who makes recommendations to the Signing Officer in respect of the audit opinion. The role of Engagement Leader may be undertaken by an individual within the Audit Office or an individual engaged either directly, or indirectly through their firm, as audit service provider. Individual Audit Offices may use different titles to refer to the 'Engagement Leader' role.
- (e) **Engagement Partner** – Defined in ASQM 1/ASA 220<sup>54</sup> as "the partner or other individual, appointed by the firm, who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body." ASA 220 requires the Engagement Partner shall take overall responsibility for managing and achieving quality on the audit engagement.<sup>55</sup>

In accordance with ASQM 1/ASA 220<sup>56</sup>, 'Engagement Partner', 'partner', and 'firm' are to be read as referring to their public sector equivalents where relevant.

<sup>52</sup> In applying ASA 220, paragraph A17, individuals from audit service providers who perform audit procedures on the audit engagement will form part of the Audit Office engagement team.

<sup>53</sup> For the purpose of this GS, the ASQM 1 (paragraph 16(v)) definition of 'service provider' has been modified for application to the public sector.

<sup>54</sup> ASQM 1, paragraph 16(c) and ASA 220, paragraph 12(a).

<sup>55</sup> See ASA 220, paragraphs 13 and 40.

<sup>56</sup> ASA 220 and ASQM 1, footnote 3.

In the context of this GS, the term ‘Engagement Partner’, as defined in ASQM 1/ASA 220, could be:

- i. the Auditor-General; or
- ii. an employee of the Audit Office; or
- iii. an audit service provider (contracted private sector auditor or individual assigned responsibility for the engagement by a contracted firm)

The concept of ‘Engagement Partner’ in the Public Sector, is further explained in paragraphs 138-147 of this GS.

- (f) **Engagement Quality Review (EQR)** – Defined in ASQM 1/ASQM 2/ASA 220<sup>57</sup> as “an objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.”
- (g) **Engagement team** – Defined in ASQM 1/ASA 220<sup>58</sup> as “all partners and staff [or, in the context of the public sector, the Engagement Leader and/or Signing Officer and Audit Office staff] performing the audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an auditor’s external expert.” In applying ASA 220<sup>59</sup>, individuals from audit service providers who perform audit procedures on the audit engagement will form part of the Audit Office engagement team.
- (h) **Firm** – Defined in ASQM 1/ASA 220<sup>60</sup> as “a sole practitioner, partnership or corporation or other entity of assurance practitioners, or public sector equivalent.” For the public sector equivalent of ‘firm’, see ‘Audit Office’ as defined in 8(a) above).
- (i) **Signing Officer**<sup>61</sup> – In the context of this GS, the term ‘Signing Officer’ is used to refer to the Auditor-General (the appointed statutory auditor) or individual authorised to sign and issue the auditor’s report on behalf of the Auditor-General. The Signing Officer may or may not be the Engagement Leader assigned responsibility for the audit engagement and its performance in practice.

## Guidance

### Concept of ‘Engagement Partner’ in the Public Sector (ASA 220, paragraph 12(a))

138. In Australia, Commonwealth, State or Territory Auditors-General are responsible for undertaking the majority of public sector audit engagements. Under audit legislation applicable in each jurisdiction, power is vested in the Auditor-General as the person appointed or authorised by a legislature for the purpose of exercising the functions and powers to conduct public sector audits. Under the Corporations Act<sup>62</sup>, only the person who holds office

<sup>57</sup> ASQM 1, paragraph 16(d); ASQM 2, paragraph 13(a); and ASA 220, paragraph 12(b).

<sup>58</sup> ASQM 1, paragraph Aus 16.4 and ASA 220, paragraph Aus 12.1. This definition has been modified for application to the public sector. For further guidance on individuals included/excluded from the definition of engagement team, see ASA 220, paragraphs A15-A25. ASA 220 guidance, for example, clarifies that the engagement quality reviewer, and any other individuals performing the EQR, are not members of the engagement team.

<sup>59</sup> ASA 220, paragraph A17.

<sup>60</sup> ASQM 1, paragraph 16(i) and ASA 220, paragraph 12(e).

<sup>61</sup> Individual Audit Offices may use different titles to refer to the individual authorised to sign the auditor’s report.

<sup>62</sup> See section 1281 of the *Corporations Act 2001*. Section 1281(2) of the Act deems a person to whom the Auditor-General delegates the function of conducting an audit or the power to conduct an audit, to be taken

- as the Auditor-General, or a person to whom the Auditor-General delegates the function or the power to conduct an audit, is taken to be registered as an auditor under the Act. As statutory auditor, the Auditor-General is ultimately responsible (accountable) to the legislature.
139. For practical reasons, due to the nature and magnitude of statutory responsibilities, individual Auditors-General are unlikely to have the capacity to personally discharge all the duties and functions required to be performed in their name and for which they are held accountable.
  140. Depending on the legislative mandate applicable in the jurisdiction, an Auditor-General may be able to:
    - (a) delegate responsibilities to an individual where that individual may be an Audit Office employee or an audit service provider; and/or
    - (b) authorise an individual (Audit Office employee or an audit service provider) or firm (audit service provider) to undertake audit functions under the direction of the Auditor-General.
  141. In managing quality at the engagement level, ASA 220<sup>63</sup> permits the Engagement Partner to assign the design or performance of some procedures, tasks or actions to appropriately skilled or suitably experienced members of the engagement team to assist the Engagement Partner. In such circumstances, ASA 220<sup>64</sup> requires that the Engagement Partner shall continue to take overall responsibility for managing and achieving quality on the audit engagement.
  142. Where the individual fulfilling the role of Engagement Leader in practice is also signing the audit opinion, practical application of ASA 220 should not be problematic and supplementary guidance provided in this section of the GS may not be relevant.
  143. However, there may be circumstances where the Engagement Leader does not have delegation or authorisation to sign the audit opinion. This may be the case where the Auditor-General:
    - (a) personally signs the auditor's report;
    - (b) legally delegates their authority to sign the auditor's report to another individual (delegate signs in their own right); or
    - (c) authorises another individual to sign the auditor's report for and on behalf of the Auditor-General.
  144. In practice, this may result in different scenarios such as:
    - (a) the Auditor-General fulfilling the role of the Engagement Leader including signing the audit opinion.
    - (b) an Audit Office employee fulfilling the role of the Engagement Leader including signing the audit opinion.
    - (c) an Audit Office employee fulfilling the role of Engagement Leader in practice with the Auditor-General signing the audit opinion.
    - (d) an Audit Office employee fulfilling the role of Engagement Leader in practice with another Audit Office employee signing the audit opinion.
    - (e) an audit service provider fulfilling the role of the Engagement Leader in practice with the Auditor-General or Audit Office employee signing the audit opinion.
  145. Where the Engagement Leader assigned responsibility for the audit engagement and its performance in practice is not also signing the audit opinion, the Engagement Leader performs

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to be a registered company auditor, but only for the purposes of applying Chapter 2M to the audit. For any audits performed outside of Chapter 2M, only the Auditor-General is taken to be registered as an auditor.

<sup>63</sup> See ASA 220, paragraphs 9 and 15.

<sup>64</sup> ASA 220, paragraphs 13 and 40.

the assigned Engagement Partner responsibilities for and on behalf of the Signing Officer. For the individual signing the audit opinion to be able to sign and issue the auditor's report, and take overall responsibility for the audit engagement and its performance (including taking overall responsibility for managing and achieving quality on the engagement as required in paragraph 13 of ASA 220), this individual may need to undertake additional procedures and/or obtain additional information from the Engagement Leader (and other members of the engagement team) and from the Audit Office's system of quality management.<sup>65</sup>

146. Audit Offices generally will have internal policies or procedures in place to respond to different signing arrangements and to clarify the respective leadership roles and responsibilities of the Signing Officer and Engagement Leader to ensure the objectives of ASA 220 are achieved. Audit Office policies or procedures will also typically specify how the Audit Office is expected to assign authority and responsibilities within the Audit Office.
147. Where the Signing Officer and Engagement Leader are not the same individual, the Signing Officer and Engagement Leader typically work collaboratively such that both the Engagement Leader and Signing Officer can be satisfied that the audit has been performed in accordance with the requirements of applicable Auditing Standards<sup>66</sup> and Audit Office policies or procedures.

### **Role and Responsibilities of the Engagement Leader where the Engagement Leader is not the Signing Officer**

148. Where the Engagement Leader assigned responsibility for the audit engagement and its performance in practice is not the Signing Officer for the engagement, Audit Offices may consider clarifying in their policies or procedures:
  - (a) that the Engagement Leader performs any assigned ASA 220 Engagement Partner duties and responsibilities for and on behalf of the Signing Officer;
  - (b) that the Signing Officer remains ultimately responsible, and therefore accountable, for compliance with the requirements of ASA 220; and
  - (c) the required actions to be taken by the Engagement Leader to assist the Signing Officer in complying with their ASA 220 responsibilities, in particular those responsibilities that the Standard explicitly requires the Engagement Partner fulfil in their personal capacity<sup>67</sup> (see paragraph 154 of this GS).
149. For example, to assist the Signing Officer make the determination as required in paragraph 40 of ASA 220 (that is, the 'stand-back' provision – see paragraph 158 of this GS), it may be expected that the Engagement Leader will take steps to assist the Signing Officer in being sufficiently and appropriately involved throughout the audit engagement such that the Signing Officer has the required basis for determining that significant judgements made and the conclusions reached are appropriate, given the nature and circumstances of the engagement. Audit Office policies or procedures may require the Engagement Leader to consider:
  - Inviting the Signing Officer to key planning and closing meetings and other relevant team events (for example, meetings to discuss significant issues pertaining to the audit or the public sector entity).

<sup>65</sup> See ASA 220, paragraphs 9 and 15.

<sup>66</sup> Auditors-General, depending on their legislative mandate, may be required to conduct public sector engagements in accordance with AUASB Standards or may be required to set their own standards which may incorporate the AUASB Standards.

<sup>67</sup> See ASA 220, paragraphs 9 and A22.

- Involving the Signing Officer in agreeing the treatment of significant, complex, or contentious accounting issues, or matters involving significant judgements<sup>68</sup>.
  - Inviting the Signing Officer to key meetings with management and those charged with governance of the public sector entity.
  - Communicating how the Engagement Leader has satisfied themselves that the requirements of ASA 220 have been met.
150. As noted in paragraph 145 of this GS, a Signing Officer may need to obtain information from the engagement team or from the Audit Office's system of quality management to make a required decision or judgement under ASA 220. Audit Office policies or procedures may address the matters required to be communicated to the Signing Officer by the Engagement Leader, including the timing and form of such communication. Communication may be in the form of briefings, internal memorandums, written confirmations and signoffs prepared by the Engagement Leader to demonstrate that they have complied with applicable Auditing Standards and Audit Office policies or procedures; that their involvement in the engagement has been sufficient and appropriate throughout; and that the work performed by less experienced members of the engagement team has been directed, supervised and reviewed in accordance with the requirements of ASA 220 and Audit Office policies or procedures. The form and content of such communication will be influenced by the nature and extent of the audit work assigned to the Engagement Leader.
151. Audit Office policies or procedures may include a requirement for the Engagement Leader to communicate matters relevant to the Signing Officer's conclusions about the audit, for example, to provide certain internal assurances and information to assist the Signing Officer in undertaking their final review and to provide clearance for the recommended auditor's report to be signed and issued. This may be in the form of an overall summary memorandum describing the work performed and the results thereof, which may include information and assurances such as:
- Confirmation that the audit has been completed and that the audit file has been reviewed and all issues resolved.
  - Confirmation that relevant ethical requirements, including those related to independence, have been fulfilled<sup>69</sup>.
  - How matters affecting the overall audit strategy and audit plan have been addressed.
  - Significant matters arising on the audit and, in particular, consultation and conclusions on matters that were difficult or contentious.
  - How any differences of opinion have been addressed and resolved.
  - Results of the procedures performed by the engagement team on significant areas of the engagement, including where significant judgements were involved.
  - Notification that the EQR (where appropriate) has been completed.<sup>70</sup>
  - Key financial results/analytics.
  - The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
  - Evidence that the financial report has been reviewed by the Engagement Leader (attach financial report for Signing Officer to review).
  - Confirmation that the financial report complies in all material respects with accounting and financial reporting standards.

<sup>68</sup> See ASA 220, paragraph A92 for examples of matters commonly expected to involve significant judgements.

<sup>69</sup> See ASA 220, paragraphs 21 and A47-A50.

<sup>70</sup> See ASA 220, paragraph A104.

- Evidence that the Management Representation Letter has been reviewed by the Engagement Leader.
  - Confirmation that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.
  - Recommended draft auditor's report and Auditor's Independence Declaration (where applicable) (attach for Signing Officer to review).
  - Significant matters communicated or expected to be communicated to management and those charged with governance or regulatory authorities.
  - Information about instances of non-compliance with laws or regulations.
  - Issues with sector wide implications, or other sensitive issues which may be of interest to the Parliament, Executive Government or the community.
152. In implementing Audit Office policies or procedures applicable to the audit engagement, the Engagement Leader exercises professional judgement and is influenced by the nature and circumstances of the engagement and any changes during the engagement, to determine whether to design and implement responses beyond those set forth in policies or procedures, to meet the objectives of ASA 220.

### **Role and Responsibilities of the Signing Officer where the Signing Officer is not also the Engagement Leader in practice**

153. Where the Signing Officer is not also the Engagement Leader in practice, the Signing Officer may have a reduced involvement in the audit due to the role of the Engagement Leader. In these circumstances, the Signing Officer may be able to rely on the Engagement Leader to perform certain key duties and responsibilities that may have been assigned to the role in accordance with the requirements of ASA 220 and Audit Office policies or procedures.
154. ASA 220<sup>71</sup> explicitly identifies requirements or responsibilities that need to be fulfilled by the Engagement Partner personally, and clarifies that the Engagement Partner may need to obtain information from the firm (Audit Office) or from other members of the engagement team, to fulfil the requirement (that is, to personally make the required decision or judgement).
155. To enable the Signing Officer to comply with the requirements of ASA 220, Audit Offices may consider specifying in their policies or procedures:
- (a) the requirements under ASA 220 that expressly needs to be fulfilled by the Signing Officer in their personal capacity;
  - (b) the information to be provided to the Signing Officer to enable them to make the required decisions or judgements expressly required to be fulfilled under ASA 220 in their personal capacity. This will include information compiled by the Engagement Leader and relevant information from the Audit Office's system of quality management;
  - (c) the additional procedures to be undertaken by the Signing Officer to obtain the necessary assurances that the Engagement Leader has completed their assigned duties and responsibilities in accordance with applicable Auditing Standards, Audit Office policies or procedures and applicable legal and regulatory requirements, and can be relied upon by the Signing Officer; and
  - (d) the minimum additional procedures to be undertaken by the Signing Officer, to enable the Signing Officer to take overall responsibility for:
    - i. the audit engagement and its performance (including overall responsibility for managing and achieving quality on the audit engagement); and

<sup>71</sup> See ASA 220, paragraphs 9 and A22.

- ii. the auditor's report being appropriate in the circumstances, and to sign and issue the auditor's report.
156. In circumstances where the Signing Officer for the engagement is not also the Engagement Leader in practice, Audit Offices may consider clarifying in their policies that, in applying ASA 220<sup>72</sup>, the Signing Officer continues to be responsible overall for managing and achieving quality on the audit engagement by:
  - (a) taking responsibility for creating an environment for the engagement that demonstrates the Audit Office's commitment to quality and expected behaviour of engagement team members;
  - (b) being sufficiently and appropriately involved throughout the engagement in accordance with the requirements of ASA 220 (see paragraphs 157-159 below); and
  - (c) taking responsibility for the direction and supervision of the engagement team and the review of their work in accordance with the requirements of ASA 220 (see paragraphs 160-167 below).
157. Being sufficiently and appropriately involved throughout the audit engagement may be demonstrated by the Signing Officer in different ways, including, for example:
  - being briefed by the Engagement Leader at appropriate times during the audit engagement;
  - meetings or calls with the Engagement Leader to discuss identified and assessed risks, issues, findings and conclusions; and
  - reviewing key audit documentation at appropriate points in time during the audit engagement.
158. ASA 220<sup>73</sup> requires that, prior to dating the auditor's report, the Engagement Partner perform a 'stand-back' to determine whether their involvement has been sufficient and appropriate throughout the audit engagement to provide the basis for determining that the significant judgements made, and the conclusions reached, are appropriate.
159. The Audit Office's policies or procedures may specify the nature, timing and extent of the Signing Officer's involvement and any reliance that may be placed by the Signing Officer on the Engagement Leader's involvement throughout the engagement. In addition to adhering to Audit Office policies or procedures, the Signing Officer applies professional judgement to tailor the nature, timing and extent of their involvement, taking into consideration the facts and circumstances of the engagement, and considering, for example, the factors listed in paragraphs A91-A97 of ASA 220.
160. Under ASQM 1, Audit Offices are required to establish policies or procedures that address the nature, timing and extent of the direction and supervision of engagement teams and the review of their work. Where direction, supervision and review have been assigned to an Engagement Leader in practice, Audit Offices may consider clarifying in their policies or procedures:
  - (a) the respective roles and responsibilities of the Signing Officer and Engagement Leader for direction, supervision and review; and

<sup>72</sup> See ASA 220, paragraph 13-15, A28-A37 and A80.

<sup>73</sup> See ASA 220, paragraph 40 (with application guidance in paragraphs A113-A116). Also refer to paragraph 13 (with application guidance in paragraphs A28-A37).

- (b) the information to be provided by the Engagement Leader to the Signing Officer to enable the Signing Officer, as required under ASA 220<sup>74</sup>, to determine that the nature, timing and extent of direction, supervision and review is:
    - i. planned and performed in accordance with the Audit Office’s policies or procedures, applicable Auditing Standards and applicable legal and regulatory requirements; and
    - ii. responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team.
161. The approach to direction, supervision and review will vary from one engagement to the next, taking into account the nature and circumstances of the engagement. The Signing Officer exercises professional judgement in tailoring their approach for each engagement, taking into consideration the factors listed in paragraphs A94-A97 of ASA 220.<sup>75</sup>
162. In applying ASA 220<sup>76</sup>, the Signing Officer is required to review key audit documentation at appropriate points in time throughout the audit engagement. ASA 220 does not require the Engagement Partner to review all audit documentation but to exercise professional judgment in considering, for example, significant matters and areas of significant judgements made by the engagement team. Such matters are generally considered by the Engagement Leader in consultation with the Signing Officer as appropriate. Audit Office policies or procedures may also specify certain matters that are commonly expected to involve significant judgements. Depending on the nature and circumstances of the engagement, the Signing Officer may be able to rely on the Engagement Leader’s review of ‘standard’ significant judgements and risks identified by the engagement team, and the Signing Officer will likely focus on the critical or ‘non-standard’ matters, especially those relating to potential qualifications, difficult or contentious issues, significant risks and other areas the Engagement Leader has identified as important.
163. In applying ASA 220,<sup>77</sup> the Signing Officer is required to determine, on or before the date of the auditor’s report, through review of audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor’s report to be issued. Information that may be relevant to the Signing Officer’s evaluation will depend on the facts and circumstances of the audit engagement, and may include written confirmations and sign-offs prepared by the Engagement Leader.
164. For example, the Signing Officer may be able to place reliance on the overall summary memorandum prepared by the Engagement Leader (see paragraph 151 above) as a basis for determining whether:
  - the Engagement Leader has completed their work consistent with applicable Auditing Standards and Audit Office policies or procedures;
  - the Engagement Leader and other senior members of the engagement team have been suitably involved in the planning and performance of the audit;
  - EQR processes have been satisfactorily completed (where required);<sup>78</sup>
  - consultation and conclusions on difficult or contentious matters were appropriate and in accordance with Audit Office policies or procedures;<sup>79</sup>

<sup>74</sup> ASA 220, paragraphs 30, A80-A84 and A94-A97.

<sup>75</sup> See ASA 220, paragraphs A80-A83.

<sup>76</sup> See ASA 220, paragraph 31 and A90-A93.

<sup>77</sup> See ASA 220, paragraphs 32 and A90-A94. Also see ASA 700, paragraph 11.

<sup>78</sup> See ASA 220, paragraphs 36(d), 41(c) and A104.

<sup>79</sup> See ASA 220, paragraph 35.

- any differences of opinion have been addressed and resolved in accordance with Audit Office policies or procedures;<sup>80</sup>
  - relevant ethical requirements, including those related to independence, have been fulfilled;<sup>81</sup>
  - reasonable assurance has been obtained whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and that the auditor's report to be issued will be appropriate in the circumstances.<sup>82</sup>
165. Where the Signing Officer places reliance on the overall summary memorandum prepared by the Engagement Leader (see paragraph 151 of this GS), this does not negate the requirement of paragraph 40 of ASA 220 for the Signing Officer to be sufficiently and appropriately involved throughout the audit (see paragraphs 149 and 157-159 of this GS).
166. In applying ASA 220<sup>83</sup>, the Signing Officer is also required, prior to dating the auditor's report, to review:
- the financial report; and
  - the recommended draft auditor's report, including, if applicable, the description of the key audit matters and related audit documentation.
167. The Signing Officer may seek to review other information, and/or request the Engagement Leader to perform additional audit procedures, if the Signing Officer considers it appropriate in the circumstances, to enable them to assume overall responsibility for the audit engagement and the appropriateness of the auditor's report.
168. ASA 220<sup>84</sup> provides guidance regarding documentation of the performance of the requirements of the Standard, including examples of different ways the Signing Officer's involvement throughout the engagement may be evidenced.

### **Engagements performed by Audit Service Providers for or on behalf of the Auditor-General**

169. An Auditor-General may be able to engage a private sector auditor or firm under contract, to perform audit engagements or audit procedures. Contracted auditors are 'service providers' under ASQM 1. ASQM 1<sup>85</sup> includes requirements and related guidance to address the additional responsibilities and considerations when the Audit Office uses resources from a service provider.
170. In applying ASQM 1, Audit Offices will have policies and procedures in place to manage quality in respect of engagements performed by audit service providers on behalf of the Auditor-General.
171. ASQM 1<sup>86</sup> explains that, notwithstanding that an Audit Office may use resources from a service provider in the performance of engagements, the Audit Office remains responsible for its system of quality management.

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<sup>80</sup> See ASA 220, paragraph 38(c).

<sup>81</sup> See ASA 220, paragraphs 21 and A47-A48.

<sup>82</sup> See ASA 220, paragraphs 32-33 and ASA 700, paragraphs 11-15.

<sup>83</sup> See ASA 220, paragraph 33 and ASA 700, paragraphs 11-15.

<sup>84</sup> See ASA 220, paragraphs A114 and A117-A118.

<sup>85</sup> For example, see paragraphs 29(b), paragraph 32(h), 33(d), 37(f), A65, A105-A108, A113, A148 and A172.

<sup>86</sup> See ASQM 1, paragraphs 11 and A105.

172. As responsibility for quality remains with the Audit Office (statutory auditor), Audit Offices may consider establishing policies or procedures, for example, to:
- Confirm that contracted audit service providers have sufficient personnel with the appropriate competencies and capabilities, including sufficient time, to deliver assigned work in accordance with contractual arrangements.
  - Confirm that contracted audit service providers meet the relevant ethical standards, including independence, on appointment and periodically thereafter.
  - Identify and resolve potential conflicts.
  - Ensure contracted-out engagements are included within the scope of the Audit Office's quality management arrangements.
  - Review all audit deliverables to be issued to those charged with governance.
173. Although responsibility for quality remains with the Audit Office (statutory auditor) for contracted-out engagements, this does not absolve the contracted audit service provider of responsibility for their system of quality management within their firms in accordance with ASQM 1. In practice, the Audit Office (statutory auditor) may decide to request an audit service provider to provide assurance regarding the system of quality management within their firm or, alternatively, may undertake procedures to confirm that an audit service provider's system of quality management is working effectively.
174. In applying ASA 220<sup>87</sup>, individuals from audit service providers who perform audit procedures on the audit engagement to assist the Audit Office will form part of the Audit Office engagement team. ASA 220<sup>88</sup> provides guidance on the application of policies and procedures when the engagement team includes individuals who are from another firm. ASA 220<sup>89</sup> notes that ASA 600<sup>90</sup>, adapted as necessary in the circumstances, may provide a useful point of reference when the engagement team includes individuals from a firm external to the Audit Office in the performance of engagements.<sup>91</sup>
175. The Auditor-General, or Audit Office employee delegated authority to sign and issue the auditor's report on behalf of the Auditor-General, will sign and issue the statutory auditor's report. Audit legislation may allow for the Signing Officer role to be delegated to an audit service provider (private sector auditor or audit firm partner).
176. As explained in paragraphs 138-147 of this GS, the Signing Officer remains ultimately responsible, and therefore accountable, for the audit engagement and its performance, and for the auditor's report that is issued. This includes taking overall responsibility for managing and achieving quality on the engagement in accordance with paragraph 13 of ASA 220.
177. The contracted audit service provider performs assigned work in accordance with the terms of the contractual arrangement, which will generally set out the respective duties and responsibilities of the contracted Engagement Leader and relevant Audit Office staff. The contracted Engagement Leader has a contractual responsibility to the Audit Office for ensuring that the work delivered meets the expectations as agreed with the Audit Office.
178. The contracted Engagement Leader is responsible for ensuring that work undertaken for and on behalf of the Auditor-General is performed in accordance with applicable Auditing

<sup>87</sup> See ASA 220, paragraph A17.

<sup>88</sup> See ASA 220, paragraphs A23-A25.

<sup>89</sup> See ASA 220, paragraph A1.

<sup>90</sup> ASA 600 *Special Considerations – Audits of a Group Financial Report (including the Work of Component Auditors)*.

<sup>91</sup> Equivalent to the group engagement partner or group auditor's involvement in the audit of a component.

Standards and for managing and achieving quality for the engagement at firm level in accordance with the contract and the audit service provider's own quality management system.

179. The Signing Officer has reduced involvement in the audit due to the involvement of the contracted Engagement Leader. For the Signing Officer to be able to sign and issue the auditor's report, the Signing Officer may need to undertake additional procedures and/or obtain additional information from the contracted Engagement Leader, relevant Audit Office staff and from the Audit Office's system of quality management.
180. There may be circumstances where an outsourced audit has both an Audit Office Signing Officer and an Audit Office employee assigned responsibility for oversight of the outsourced audit engagement and its performance in practice. In these circumstances, the assigned Audit Office Engagement Leader and contracted Engagement Leader perform assigned Engagement Partner duties and responsibilities in accordance with Audit Office policies and procedures and the terms of the contractual arrangement, for and on behalf of the Signing Officer.
181. Audit Offices generally will have internal policies or procedures in place to respond to different arrangements and to clarify the respective leadership roles and responsibilities of the contracted audit service provider, Audit Office Engagement Leader and the Signing Officer, to ensure the objectives of ASA 220 are achieved.
182. The Audit Office may develop policies or procedures to address the form or specific wording of the overall conclusion to be provided by the audit service provider. In some cases, the audit service provider may be required to provide draft deliverables, including a draft auditor's report to the Audit Office.
183. If differences of opinion arise between the audit service provider and the Signing Officer or individuals performing activities within the Audit Office's system of quality management, the parties shall follow the Audit Office's policies or procedures for dealing with and resolving such differences of opinion.
184. In circumstances where the legislative audit mandate allows for the Engagement Partner role to be fully contracted-out to a private sector auditor or firm, the appointed auditor or individual assigned responsibility for the engagement by an appointed firm, fulfils the role and responsibilities of Engagement Partner in their own right and will be responsible for the audit engagement and its performance, and for the auditor's report that is issued, in accordance with the requirements of ASA 220. In these circumstances, the audit service provider (individual or firm) issues the audit report in their own name and assumes responsibility for quality.

# EXAMPLE CONTROLS AND AUDIT PROCEDURES RELATING TO FUNDRAISING REVENUE

AUASB Meeting - March 2023

Agenda Item 10.2

While this document contains certain example internal controls and indicative audit procedures, it does not describe all of the internal controls or procedures necessary to establish control over fundraising revenue or to perform an audit of a not-for-profit entity's fundraising revenue in accordance with Australian Auditing Standards. The guidance in this document is neither intended to be comprehensive, nor is it intended to limit or supplant individual professional judgement. Audit programs and audit procedures for each audit need to be designed to meet the requirements of the particular engagement, which is a matter that can be determined only by the exercise of professional judgement in the light of the circumstances present in a particular case.

The example controls listed below for fundraising revenue assist in improving control over the collection of these sources of fundraising revenue. However, overall control of fundraising revenue is enhanced if the governing body implements policies governing the undertaking of fundraising activities, establishes operational and financial internal controls for fundraising and has in place procedures to ensure compliance therewith.

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## EXAMPLE CONTROLS AND AUDIT PROCEDURES RELATING TO FUNDRAISING REVENUE

Methods of Collection	Associated Risks	Example Controls	Indicative Audit Procedures
<b>Nature of fundraising revenue – physical cash</b>			
<b>In-person collection (door-to-door collection, special events etc)</b>	<ul style="list-style-type: none"> <li>Qualitative inherent risk factor is higher as physical cash is highly susceptible to inadvertent misplacement or loss through fraud or theft.</li> <li>Control risk associated with the completeness of physical cash donations usually assessed as high.</li> </ul>	<ul style="list-style-type: none"> <li>Establish numerical control over Ensure appropriate sealing of collection boxes so that any opening prior to recording cash is apparent</li> <li>Maintain regular collection and recording of proceeds from collection boxes</li> <li>Establish dual control over counting and recording of proceeds independent of collectors</li> <li>Reconcile receipts issued with cash received</li> <li>Issue receipts, where appropriate</li> <li>Require collectors to operate in pairs so that one collector is able to observe the actions of the other</li> <li>Where collections are solicited from a designated geographical area, require a report on the response of each collection unit (e.g. each household)</li> </ul>	<ul style="list-style-type: none"> <li>Review and test procedures implemented to collect cash donations and their systems of control</li> <li>Review and test policies and procedures followed by staff or volunteers when collecting cash donations</li> <li>Reconcile total of tax receipts issued with cash recorded and banked</li> <li>Design analytical procedures for each different source or geographical area from which cash donations are obtained, e.g. compare cash donations from a particular activity or geographical area with previous years or forecasted cash donations</li> </ul>

## EXAMPLE CONTROLS AND AUDIT PROCEDURES RELATING TO FUNDRAISING REVENUE

<b>Postal collection</b>		<ul style="list-style-type: none"> <li>• Segregate mail opening and bank deposit functions</li> <li>• Ensure immediate recording of donations on opening of mail or receipt</li> <li>• Agree bank paying-in slips with a record of receipts by an independent person</li> </ul>	<ul style="list-style-type: none"> <li>• Observe control procedures</li> <li>• Analyse donations received to donations requested, and compare with previous years or industry statistics (if available)</li> </ul>
<b>Bequests and Legacies</b>		<ul style="list-style-type: none"> <li>• Maintain comprehensive correspondence files for each bequest or legacy received or receivable</li> <li>• Implement systematic procedures to detect if any restrictions are imposed on the expenditure of funds, and ensure details about restrictions are communicated to those responsible for expenditure of funds</li> <li>• Separately record legacies with restrictions imposed and deposit in trust or separate bank account</li> </ul>	<ul style="list-style-type: none"> <li>• Review correspondence relating to bequests and legacies, noting the imposition of any restrictions and the consequences of non-compliance therewith</li> <li>• Test controls over expenditure and approval Review procedures for recording bequests and legacies</li> </ul>

## EXAMPLE CONTROLS AND AUDIT PROCEDURES RELATING TO FUNDRAISING REVENUE

Methods of Collection	Associated Risks	Example Controls	Indicative Audit Procedures
<b>Nature of fundraising revenue – digital cash</b>			
<b>Digital donations (e.g. credit cards, EFTPOS, direct debit, Go Fund Me, PayPal, QR codes) /</b>  <b>Monthly Subscriptions</b>	<ul style="list-style-type: none"> <li>Qualitative inherent risk factor is lower than physical cash donations as digital payments are less susceptible to misplacement or theft</li> <li>Control risk associated with the completeness of digital donations usually assessed as med/low</li> </ul>	<ul style="list-style-type: none"> <li>EFTPOS – GITC over Point-of-Sale system, daily reconciliation to accounting system</li> <li>GoFundMe, PayPal or other third party digital platform – Ensure the entity understands the full policy of the product including the controls in place against fraud, payment encryption technology, dual sign in to request withdrawal or any electronic bank transfer of withdrawals will require approval from authorised personnel</li> <li>Reviewing and approval of funding communications to ensure that only the approved NFP bank accounts details are included in the funding communications</li> <li>Controls around transfer of funds from third party digital platform to designated NFP bank account</li> <li>Monthly bank reconciliations that are reviewed and signed off</li> </ul>	<ul style="list-style-type: none"> <li>Review general IT controls of the entity</li> <li>Consider obtaining type 1 or type 2 report from the service organisation</li> <li>Review funding communications and transfer of funds from third party digital platform for proper approval from authorised personnel</li> <li>Review of monthly bank reconciliations with specific consideration for any unusual reconciling items</li> <li>Estimate revenue based on # of subscribers x average donation to determine reasonableness of revenue recorded</li> <li>Review general IT controls over securing donors credit card details</li> <li>Review data retention policy</li> </ul>

## EXAMPLE CONTROLS AND AUDIT PROCEDURES RELATING TO FUNDRAISING REVENUE

		<ul style="list-style-type: none"> <li>• Issue receipts, where appropriate</li> <li>• Enquire about procedures over establishing new subscription accounts and reviewing controls on an ongoing basis</li> <li>• General IT controls of the website used by donors to fill in their credit card details</li> <li>• Data retention policy of donor's privacy information</li> </ul>	
<b>Nature of fundraising revenue – donated materials</b>			
<b>Donated Materials</b>	<ul style="list-style-type: none"> <li>• Inherent risk factors in estimating the fair value of donated materials</li> <li>• Qualitative inherent risk factor is higher as materials are highly susceptible to inadvertent misplacement, or loss through fraud or theft</li> </ul>	<ul style="list-style-type: none"> <li>• Develop policies to ensure immediate recording of donated materials, with periodic review of policies by the appropriate level of management</li> <li>• Segregate incompatible tasks, for example, responsibility for receipt and recording of donated materials Supervise collections to prevent collusion or theft</li> </ul>	<ul style="list-style-type: none"> <li>• Enquire about the accounting policies adopted for recording donated materials, test the extent and effectiveness of the accounting procedures and internal controls</li> <li>• Compare data collected on current year donated materials with budgeted material contributions or previous years' receipts</li> <li>• Consider confirming contributions from significant donors</li> </ul>

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# Templates for Audit and Review Reports

AUASB Meeting - March 2023  
Agenda Item 10.3

## Examples of Emphasis of Matter Paragraphs

### Example 1:

Extract of Emphasis of Matter paragraph from an unmodified auditor's report on a GPFS prepared in accordance with Australian Accounting Standards. This report is not prepared under the *Corporations Act 2001*.

### Emphasis of Matter

We draw attention to Note X to the financial report, which describes the revenue recognition policy of [name of not-for-profit entity], including the limitations that exist in relation to the recording of cash receipts from [name of source of fundraising revenue]. Revenue from this source represents a significant proportion of [name of not-for-profit entity's] revenue. Our opinion is unmodified in respect of this matter.

### Example 2:

Extract of Emphasis of Matter paragraph from an unmodified auditor's report on a SPFS prepared in accordance with a fair presentation framework by a non-reporting entity, including in compliance with Division 60 (in particular section 60.30) of the ACNC Regulation for a large registered entity.

### Emphasis of Matter - Basis of Accounting

We draw attention to Note X to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the registered entity's financial reporting responsibilities under the ACNC Act. As a result, the financial report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.



# Templates for Audit and Review Reports

## Example of Qualified Opinion Paragraphs

### Example 3:

Extract of Qualified Opinion paragraphs from an auditor's report on a **SPFS** prepared in accordance with a fair presentation framework by a non-reporting entity, including in compliance with Division 60 (in particular section 60.30) of the **ACNC Regulation** for a large registered entity. The auditor was unable to obtain sufficient appropriate audit evidence regarding the cash donations due to the impracticability to establish control over the collection of cash.

### Qualified Opinion

We have audited the financial report of [name of registered entity], which comprises the statement of financial position as at 30 June 20XX, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year [period] then ended, and notes to the financial statements, including a summary of significant accounting policies, and the responsible entities' declaration.

In our opinion, except for the effects of the matter described in the Basis of Qualified Opinion section of our report, the accompanying financial report of [name of registered entity] is in accordance with Division 60 of the Australian Charities and Not-for-profits Commission Act 2012, including:

- (a) giving a true and fair view of the registered entity's financial position as at 30 June 20XX and of its financial performance for the year [period] ended; and
- (b) complying with Australian Accounting Standards to the extent described in Note X, and Division 60 of the Australian Charities and Not-for-profits Commission Regulation 2013.

### Basis of Qualified Opinion

Cash donations are a significant source of fundraising revenue for [name of registered entity]. The [name of registered entity] has determined that it is impracticable to establish control over the collection of cash donations prior to entry into its financial records. Accordingly, as the evidence available to us regarding fundraising revenue from this source was limited, our audit procedures with respect to cash donations had to be restricted to the amounts recorded in the financial records. We therefore are unable to express an opinion on whether the recorded cash donations of [name of registered entity] are complete.

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the registered entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



# Templates for Audit and Review Reports

## Example of Qualified Conclusion Paragraphs

### Example 4:

**Extract of Qualified Conclusion paragraphs from an auditor's review report on a SPFS prepared in accordance with a fair presentation framework by a non-reporting entity, including in compliance with Division 60 (in particular section 60.30) of the ACNC Regulation for a medium registered entity.**

**The auditor was unable to obtain audit evidence about the registered entity's inventories and cash donations. The auditor has also reported on other reportable matters under section 60-50(3)(b) of the ACNC Act, which was identified in the course of the review, and determined that there was a failure to keep other records as required by section 55-5 of the ACNC Act. A qualified conclusion is expressed on the review of the financial report.**

### Basis for Qualified Conclusion

Cash donations are a significant source of fundraising revenue for [name of registered entity]. The [name of registered entity] has determined that it is impracticable to establish control over the collection of cash donations prior to entry into its financial records. Accordingly, as the evidence available to us regarding fundraising revenue from this source was limited, our audit procedures with respect to cash donations had to be restricted to the amounts recorded in the financial records. We therefore are unable to conclude whether the recorded cash donations of [name of registered entity] are complete.

Additionally, we were not given all information, explanation and assistance necessary for the conduct of the review in relation to a material component of inventories. We are unable to adopt alternative procedures regarding [identify the component of inventories] included in the statement of financial position at a total amount of xxx as at 30 June 20XX. Accordingly, we were unable to conclude on this inventory balance or determine whether any adjustments might have been found necessary. [This is a deficiency under section 60-30(4)(b) of the ACNC Act.]

### Qualified Conclusion

Based on our review, which is not an audit, with the exception of the matters described in the Basis for Qualified Conclusion paragraph, we have not become aware of any matter that makes us believe that the financial report of [name of registered entity] does not satisfy the requirements of Division 60 of the *Australian Charities and Not-for-profits Commission Act 2012* including:

- (a) giving a true and fair view of the registered entity's financial position as at 30 June 20XX and of its financial performance for the year [period] ended on that date; and
- (b) complying with Australian Accounting Standards to the extent described in Note X, and Division 60 of the *Australian Charities and Not-for-profits Commission Regulation 2013*.



# Templates for Audit and Review Reports

## Example of Material Uncertainty Related to Going Concern Paragraph

### **Example 5:**

**Extract of Material Uncertainty Related to Going Concern paragraph from an unmodified auditor's report on a SPFS prepared in accordance with a fair presentation framework. The auditor has determined that a material uncertainty exists related to events or conditions that may cast significant doubt on the registered entity's ability to continue as a going concern. The disclosure of the material uncertainty in the financial report is adequate.**

### **Material Uncertainty Related to Going Concern**

We draw attention to Note X in the financial report, which indicates that the registered entity incurred a net loss of xxx during the year ended 30 June 20XX and, as of that date, the registered entity's current liabilities exceeded its total assets by XXX. 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 registered entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Draft

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**Consultation Paper**  
**January 2023**  
*Comments Due: April 11, 2023*

*International Auditing and Assurance Standards  
Board*

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## The IAASB's Proposed Strategy and Work Plan for 2024–2027

## **About the International Auditing and Assurance Standards Board (IAASB)**

We are a global independent standard-setting body that serves the public interest by setting high-quality international standards.

We believe that a single set of robust international standards contributes to enhanced engagement quality and consistency of practice throughout the world and strengthened public confidence in the global auditing and assurance profession. We set our standards in the public interest under the oversight of the Public Interest Oversight Board (PIOB).

## **About this Consultation**

This consultation invites views from stakeholders on trends, developments or issues that we should consider in developing our Strategy and Work Plan 2024–2027.

This Consultation Paper comprises three sections:

- Section I – Request for Comments;
- Section II – Our Proposed Strategy for 2024–2027 (our proposed Strategy); and
- Section III – Our Proposed Work Plan for 2024–2027 (our proposed Work Plan).

Respondents are asked to provide views or suggestions in response to the questions in the Request for Comments section. If a respondent has no response to a particular question, that question may be skipped. When a respondent agrees with a position or approach or action indicated in this paper, it will be helpful for us to be made aware of this view as support for proposals cannot always be inferred when not stated.

We anticipate approving the Strategy and Work Plan in Q4 2023.

## Chair's Foreword

Audit and assurance play vital roles in the world's economies. At its best, the opinion of audit and assurance practitioners enhance trust in markets and assist in efficient, sustainable resource allocation. This public interest mission is the reason that I, as a non-auditor, feel so passionately about the need to develop standards of the highest quality and relevance to underpin auditors' work.

The IAASB is now entering the fourth and final year of its current strategy. At this point, it is appropriate to pause and reflect on our current strategy's success. I also see the current moment as an opportunity to engage with our stakeholders on how to improve our work to ensure that the public interest is being best served through IAASB standards. Therefore, this Consultation Paper is meant to stimulate discussion and advice.



In many ways, this proposed Strategy builds upon the current strategy, with an emphasis on standards that enable the performance of high-quality engagements to enhance trust in markets. This proposed Strategy also comes at an exciting time for the IAASB and the International Ethics Standards Board for Accountants (IESBA) as we implement the Monitoring Group recommendations aimed at strengthening the independence and accountability of standard setting. This proposed Strategy, with the benefit of these reforms, will strengthen our ability to adapt to rapidly changing public interest demands. Our commitment in this proposed Strategy to developing a global baseline for sustainability assurance standards is maybe the strongest, but not exclusive, example of how we moved quickly to address emerging public interest requirements.

We know that we cannot act alone. The external reporting ecosystem depends on a range of participants—corporate preparers, board directors, investors, auditor and assurance practitioners, standard-setters, and regulators, among others. Our current strategy emphasized the need for enhanced outreach to all these groups. We will not step back from that level of engagement. This proposed Strategy also notes that the amount of standard-setting and regulatory initiatives across the world is only growing. We, in coordination with IESBA, will engage with our regulatory and standard-setting partners to help ensure that our coordinated actions strengthen trust in markets.

This proposed Strategy and Work Plan attempts to articulate these points and the specific actions that we will take over the next four years to achieve our goal.

We want to hear your views but are cognizant of the many requests and demands placed on our stakeholders. The pandemic has stretched capacity, and significant effort is underway to implement new standards. Therefore, please feel free to only respond to those parts of the consultation document that you feel most warrant attention or are most relevant to your work.

We value and need your input if we are going to fulfill our public interest mission.

Yours sincerely,

Tom Seidenstein

IAASB Chair

## Section I: Request for Comments

We developed this Consultation Paper, informed by the activities highlighted in **Appendix 1**, to generate discussion with stakeholders on our proposed Strategy and Work Plan. We are presenting our stakeholders with a complete draft of our proposed Strategy and Work Plan and request stakeholders' feedback on this draft.

*We ask that you respond directly to the questions below and provide the rationale for your answers, as well as specific suggestions, where appropriate. We appreciate all your feedback, and respondents may respond to all questions or only those questions where they have specific comments.*

### Questions

1. Do you agree with *Our Proposed Goal, and Our Proposed Keys to Success and Stakeholder Value Proposition* (see pages 5–6)?
2. Do you agree with *Our Proposed Strategic Drivers* as the key environmental factors that drive the opportunities and challenges impacting our ability to achieve our goal (see pages 7–9)?
3. Do you agree with *Our Proposed Strategic Objectives* and *Our Proposed Strategic Actions* (see pages 10–14)?
4. Do you support the identified possible new standard-setting projects as set out in **Table B** (see pages 20–22) within the area of **audits and reviews** (numbered A. to K.)? Please share your views on the individual topics, including, if relevant, why certain topics may be relatively more important to you, your organization or within your jurisdiction.
5. Do you support the identified possible new standard-setting projects as set out in **Table B** (see pages 20–22) within the area of **sustainability and other assurance engagements** (numbered L. and M.)? **Topic L., Further Standards for Assurance on Sustainability Reporting**, would involve addressing multiple topics (as part of possible multiple projects). Please provide your views about likely candidate topics for further standards.
6. Are there other topics that we should consider as new standard-setting projects? If so, please indicate whether any such topics are more important than the topics identified in **Table B** (see pages 20–22), and the needs and interests that would be served by undertaking work on such topic(s).
7. Our proposed Strategy and Work Plan emphasizes the importance of close coordination with our sister-Board, IESBA. What are your views about whether and, if so, how coordination could be enhanced in terms of opportunities for joint or complementary actions that would better serve the public interest? Suggestions could entail standard-setting work, engagement with stakeholder groups, and improved ways of working, among others.
8. Are there any other matters that we should consider in finalizing our Strategy and Work Plan?

**Comments are requested by April 11, 2023.** Respondents are asked to submit their comments electronically through our website ([www.iaasb.org](http://www.iaasb.org)), 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 be posted on our website.

## Section II: Our Proposed Strategy for 2024–2027

We recognize the valuable role that high-quality, globally accepted audit, assurance and related services standards play in strengthening confidence in the external reporting ecosystem. That ecosystem comprises preparers (i.e., entities and their management), those charged with governance, users of externally reported information, auditors, assurance and other practitioners, international and jurisdictional standard setters, and regulators and oversight bodies.

With our standards used in approximately 130 jurisdictions throughout the world,<sup>1</sup> we recognize the positive impact that our standards make to the global economy. Our proposed Strategy is an opportunity to articulate how we fulfill our public interest mandate. By engaging with our stakeholders, this consultation provides an opportunity to benefit from our stakeholders' advice as to how we can continue to evolve our approach and our work to effectively serve markets. Our proposed Strategy, if approved, will serve as a beacon to guide us in terms of the impact that we will have on, and for our stakeholders.

### Our Proposed Goal

To serve the public interest by:

*Developing the globally accepted and leading audit, assurance, and related services standards enabling the performance of high-quality engagements that enhance trust in markets and evolve in a timely manner to meet rapidly changing public interest demands*

Our goal represents the aspirational outcome that we strive to achieve. It has been set in the context of the environment in which we operate and the needs that we serve. The goal reflects our public interest mandate affirmed by the recent Monitoring Group reform recommendations and it also incorporates our consideration of relevant strategic drivers (see pages 7–9).

Our goal provides a barometer to evaluate our progress. Benefitting from the oversight of the PIOB, we will monitor whether our standards continue to be adopted and incorporated throughout the world, whether our work in new areas (including sustainability, technology, and complexity) achieve the broad respect of and use by stakeholders, and whether our commitment to the public interest remains unchallenged.

Our proposed Strategy describes our strategic objectives and resulting strategic actions as the best way to contribute to achieving our goal (see pages 10–14).

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<sup>1</sup> These numbers have been determined from publicly available information provided by International Federation of Accountants (IFAC) about jurisdictions using, or committed to using, the ISAs, and are subject to change.

## Our Proposed Keys to Success and Stakeholder Value Proposition

The following messages frame the broad lens of our strategic thinking.

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### Our Keys to Success

Achieving our proposed Strategy:

- Through our commitment to engage, listen and learn, and to lead and adapt in our global standard-setting responsibilities.
  - Through our people at the Board and Staff levels, utilizing their collective competencies, capabilities, and experience, and benefiting from their diversity to deliver global solutions.
  - By fostering confidence in the quality of our processes and the relevance and credibility of our standards, evidenced by the many jurisdictions using or committed to using our standards.
- 

### Our Stakeholder Value Proposition

- **Our standards:** Globally relevant, coherent, scalable, proportionate, operable, and adaptable for the future. Our standards support the consistent performance of quality engagements and are developed through activities that are timely and responsive to the needs of our stakeholders.
  - **Our engagement with our stakeholders:** Timely and meaningful dialogue with a broad range of stakeholders. Our general outreach program, and project-specific and other targeted outreach activities support connectedness with our stakeholders, enhance our responsiveness and influence our standard-setting activities. This includes, as appropriate, convening stakeholders to hold roundtables, or using other forms of targeted consultation to ensure that we use a variety of means to engage stakeholders in our activities.
  - **Our coordination with other standard setters:** Focused on the collective impact of the activities of standard setters in the external reporting ecosystem, at the global and jurisdictional levels, and the value of actions that are informed by interaction, coordination, and collaboration. Our standards are premised on firm or auditor / practitioner compliance with relevant ethical requirements. Therefore, we will continue our close coordination with IESBA.
  - **Our Work Plan:** Informed by deliberate processes and procedures for selecting and prioritizing our standard-setting activities. Our Work Plan is focused on where further development of the standards can best contribute to meeting users' needs, while balancing timeliness and quality.
  - **Our processes:** Rigorous and inclusive, yet agile, leveraging external resources where appropriate. We continuously review and improve our processes and ways of working to better facilitate delivery of our Work Plan and address external expectations.
-

## Our Proposed Strategic Drivers

The strategic drivers identified below are the result of our consideration of environmental factors that drive the opportunities and challenges impacting our ability to achieve our goal. Understanding our key opportunities and challenges and balancing the needs of our stakeholders will drive the choices we make for the 2024–2027 Strategy period. The most significant strategic drivers that have shaped our proposed Strategy and Work Plan include:

### Increased and More Diverse Demand for Our Standards

- **Heightened supervisory scrutiny.** Regulators and oversight bodies are key players in the external reporting ecosystem. They promote accountability and support the faithful performance of audits of financial statements and assurance engagements. Regulators and oversight bodies are increasingly asking for more specificity of requirements in standards for increased enforceability to help drive improved performance and to keep pace with increasing complexity of the business environment, and financial and other external reporting frameworks.
- **Impact of technology.** The impact of technology is multifaceted and includes the use of technology by entities in their business models, information systems and reporting processes. It also includes the use of technology by auditors and practitioners in undertaking audit, assurance, and related services engagements. In addition, disruptive technologies are potentially transforming these engagements and may require new or revised standards.
- **Sustainability reporting and other evolving areas for assurance engagements.** Sustainability reporting is a rapidly evolving area, moving from voluntary reporting commitments to requirements mandated across various jurisdictions. Alongside this, there is the need for assurance and a growing, urgent call to develop international standards on sustainability assurance. In addition, the broader focus on the role of non-financial information in capital and resource allocation decisions could prompt the need for assurance engagements on various and diverse topics.
- **Diverse demands across the spectrum of stakeholders reflecting the breadth of the global economy.** The world that our standards must contend with is getting increasingly complex and diverse. On one hand, stakeholders are calling for more concise ‘proportionality solutions’, such as for audits of financial statements of less complex entities. On the other hand, stakeholders are asking for new or enhanced standards that address specific elements of an audit or assurance engagement, or specific subject matter information or services, with more granular requirements and application material.

	<ul style="list-style-type: none"> <li>• <b>Supporting the implementation of our standards.</b> We have been developing first-time implementation support materials for completed projects, as appropriate. Some stakeholders are of the view that, compared to the demands for standard setting, we should reduce the relative priority given to developing first-time implementation support materials, while other stakeholders are of the view that these activities add significant value for stakeholders and should be a focus area for us alongside our standard-setting activities. Seeking partners to assist in the development of first-time implementation support materials or other non-authoritative guidance (e.g., jurisdictional / national auditing standard setters (NSS)) is one suggestion received to balance competing demands.</li> </ul>
<p>Confronting ‘headwinds’ to global adoption of standards</p>	<ul style="list-style-type: none"> <li>• <b>Value of cooperation across independent standard-setting bodies.</b> To enhance capital markets by reducing the cost of capital, stakeholders are increasingly expecting standard setters to be coordinated in their efforts. This includes international and jurisdictional standard setters for auditing, assurance, ethics, and financial, sustainability and other external reporting.<sup>2</sup> Standards informed by coordination have an increased likelihood of acceptance and adoption, reduce the burden on and enhance effectiveness for entities and practitioners, and reduce fragmentation.</li> <li>• <b>Evolving expectations around sustainability assurance.</b> Several jurisdictional and international organizations may develop sustainability assurance standards to local timelines which leads to fragmentation. Stakeholders emphasize the value of a global standard-setting solution that provides a baseline, as this would promote consistency, comparability, and transparency. Such a global baseline would need to be profession agnostic (i.e., whether the engagement is undertaken by a professional accountant practitioner or non-professional accountant practitioner).</li> <li>• <b>Impact of and reasons for jurisdictions developing their own audit and assurance standards.</b> There is an increasing trend of certain jurisdictions developing their own standards. Although jurisdictions often indicate that a global standard(s) is preferred, there are factors that drive the need for jurisdictions to develop their own solutions. These could include timeliness of delivering a standard(s), political and other jurisdictional pressures, and responding to a specific jurisdictional need. When developing their own solution,</li> </ul>

<sup>2</sup> At jurisdictional level, standards may result from the activities of legislative or regulatory authorities, or relevant local bodies with standard-setting authority.

	<p>jurisdictions may, for example, use our standards as a baseline but “add on” or develop their own alternative standard(s).</p> <ul style="list-style-type: none"> <li>• <b>Increasingly complex to manage global engagement with new stakeholders.</b> As the business and reporting environment, and user needs within the financial and broader external reporting ecosystem, continue to evolve, our standard-setting activities need to be informed by existing and new stakeholders. This new reality requires specific attention to identify and stay connected with new stakeholders.</li> </ul>
<p><b>Changing Demands to Our Ways of Working</b></p>	<ul style="list-style-type: none"> <li>• <b>Implement the Monitoring Group reforms.</b> The Monitoring Group reforms were finalized and issued in July 2020. The transition planning was undertaken in 2020 and 2021, and the implementation commenced in 2022. Full implementation is expected to take a further three to four years and will require various changes at the Board and Staff levels, in how oversight by the PIOB is exercised over the Board’s activities, and in our processes (our standard-setting due process and our operating procedures).</li> <li>• <b>Attract top talent at the Board and Staff levels.</b> The Monitoring Group’s reforms require different skills from Board members and Staff compared to the extant model. For example, the composition of the Board will change with a significant reduction in the number of practitioner members, the role of technical advisors will reduce, and projects will become primarily Staff led. In addition, the clear trend to maintaining workstreams and undertaking projects in both the traditional area of audits and reviews of financial statements, and sustainability and other assurance engagements, introduces a different dynamic for the talent required at the Board and Staff levels.</li> <li>• <b>Increasingly tight timelines to meet heightened expectations.</b> Across the spectrum of increased and diverse demands and the matters relevant to the risk of fragmentation as noted above, there is a general theme of urgency – a need for timely action and the timely delivery of standard-setting solutions. Stakeholders’ expectations are changing about how long it should take to develop standards resulting in increasingly tight deadlines. On the other hand, stakeholders are asking for sufficient time to implement standards and absorb changes, and expect appropriate consideration of relevant issues as part of the due process to ensure quality.</li> <li>• <b>Ability to leverage technology.</b> As noted above, the impact of technology is multifaceted. Leveraging technology provides opportunities to enhance the way we work, our processes and performance at the Board and Staff levels.</li> </ul>

## Our Proposed Strategic Objectives

Our proposed strategic objectives are the differentiating outcomes that address our strategic drivers and are necessary to achieve our goal. Our proposed strategic objectives (and related proposed strategic actions addressed in the next section) are the choices we made for the 2024–2027 Strategy period in working towards achieving our goal. This is what will focus our attention for selecting and prioritizing our standard-setting and related activities. In developing these proposed strategic objectives, we have deliberately been specific about what we commit to and what we believe is achievable based on our Board and Staff resources and our operating budget.

The diagram below depicts our proposed strategic objectives for the 2024–2027 Strategy period.



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### **Proposed Strategic Objective 1: Support the Consistent Performance of Quality Audit Engagements by Enhancing Our Auditing Standards in Areas Where There Is the Greatest Public Interest Need**

Setting auditing standards remains a key priority as we recognize the core role that audited financial statements play in contributing to trust and confidence in markets. This strategic objective assumes prioritizing the completion of the key audit engagement-related projects underway at the start of 2024. In addition, we will focus on the timely identification and progression of new projects in response to identified public interest demands.

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### **Proposed Strategic Objective 2: Establish Globally Accepted Standard(s) for Assurance on Sustainability Reporting**

Given the growing, urgent call to consider our international standards in relation to non-financial information and the rapidly evolving reporting and assurance requirements on sustainability in the European Union and elsewhere, we are committed to establish the preeminent and globally accepted standard(s) for assurance on sustainability reporting. Achieving this objective necessarily requires coordination and cooperation with a variety of stakeholders, including those who have not traditionally participated in our processes. It also includes liaison with other relevant standard-setting bodies, including but not limited to IESBA and the International Sustainability Standards Board (ISSB).

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### **Proposed Strategic Objective 3: Strengthen Coordination with IESBA and Other Leading Standard Setters and Regulators to Leverage Better Collective Actions in the Public Interest**

Although we and IESBA are independent of one another and have unique needs, the two Boards' standard-setting actions have a collective impact on the external reporting ecosystem. This strategic objective refers to maintaining and enhancing our coordination, while seeking opportunities for joint or complementary actions.

Other standard setters and regulators at the international and jurisdictional levels, and across the external reporting ecosystem, also have a shared interest in ensuring their standards complement each other. Timely and meaningful outreach, coordination and, as appropriate, collaboration is necessary to inform our work and to deliver on our mandate.

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### **Proposed Strategic Objective 4: Create more Agile, Innovative Ways of Working in Line with the Monitoring Group's Reform Vision**

The changes coming from the implementation of the Monitoring Group reforms and the growing need to maintain a balance between our focus on audits and reviews of financial statements, and sustainability and other assurance engagements, will require us to attract and retain talent at the Board and Staff levels to meet 'new' and different expectations. In addition, enhancing our processes is critical to our success, including using technology and appropriate resources to maximize the impact of our activities, thereby enabling us to respond on a timelier basis to issues and challenges.

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## Our Proposed Strategic Actions

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### Proposed Strategic Objective 1: Support the Consistent Performance of Quality Audit Engagements by Enhancing Our Auditing Standards in Areas Where There Is the Greatest Public Interest Need

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#### Strategic Actions – We will:

- Progress and complete our projects underway at the start of the Strategy period (see our proposed Work Plan).
- Undertake information gathering and research activities to determine and initiate new projects for audits (or reviews) of financial statements during the Strategy period in accordance with the criteria as set out in our [Framework for Activities](#) (see our proposed Work Plan). We will progress new standard-setting projects in accordance with approved project proposals.
- Continue our focus on technology, professional skepticism and auditor reporting through our Consultation Groups and consider how best to respond to the broader public interest demands in these areas (also taking into account how these matters may be addressed in projects already underway or possible new projects).
- Develop timely first-time implementation support materials for completed projects, as appropriate. This may include action by us or facilitating and supporting action by others.
- Monitor the need for and initiate, as appropriate, post-implementation reviews of new or revised standards.
- Continue engagement and communication with our stakeholders through timely and meaningful outreach activities (including exploring and using different means of reaching and consulting our stakeholders) focused on:
  - Promoting the effective implementation of the International Standards on Auditing (ISAs), International Quality Management Standards (ISQMs), and the proposed ISA for Audits of Financial Statements of Less Complex Entities.
  - Understanding issues that affect our standards, including financial reporting issues, implementation challenges, the impact of technology and opportunities for collaboration to enhance engagement quality.
- Draft our standards in line with the complexity, understandability, scalability and proportionality drafting guidelines and principles, and the qualitative characteristics that standards should exhibit as set out in the [Public Interest Framework](#).

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## Proposed Strategic Objective 2: Establish Globally Accepted Standard(s) for Assurance on Sustainability Reporting

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### Strategic Actions – We will:

- Progress in a timely manner and complete our overarching standard for assurance on sustainability reporting (see our proposed Work Plan).
- Initiate further standards on sustainability assurance to complement our overarching standard during the Strategy period (see our proposed Work Plan). Selection of new topics will be done in accordance with the criteria as set out in our Framework for Activities.
- Monitor the need for, and develop as appropriate, timely first-time implementation support materials for our overarching standard. This may include action by us or facilitating and supporting action by others.
- Continue engagement and communication with our stakeholders through timely and meaningful outreach activities focused on:
  - Coordinating with other relevant standard-setting bodies, including IESBA in relation to international ethics standards, as well as international and jurisdictional bodies with responsibility for reporting or assurance requirements or standards.
  - Promoting the adoption and effective implementation of our sustainability assurance standard(s).
  - Understanding the issues that assurance practitioners and other stakeholders are facing with respect to sustainability reporting and assurance, and identifying coordination opportunities to enhance sustainability reporting within the external reporting ecosystem.

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## Proposed Strategic Objective 3: Enhance Coordination with IESBA and Other Leading Standard Setters and Regulators to Leverage Better Collective Actions in the Public Interest

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### Strategic Actions – We will:

- Maintain and enhance our coordination efforts with IESBA in the traditional area of audits and reviews of financial statements, as well as the area of sustainability and other assurance engagements. This includes at the Board, Task Force, Working Group and Staff levels, as well as in relation to project identification and scoping.
- Interact with the newly formed Stakeholder Advisory Council.<sup>3</sup> The Stakeholder Advisory Council, which will serve both our work and that of IESBA, will be a fundamental part of our engagement with our stakeholders at a strategic level.
- Further enhance working relationships with regulators and audit and assurance oversight bodies to help understand their concerns, and further explore causal factors to address public interest issues.

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<sup>3</sup> The Stakeholder Advisory Council will commence its activities in 2024 and replaces our and IESBA's Consultative Advisory Groups as contemplated under the Monitoring Group reforms.

- Continue our two-way liaison with the International Accounting Standards Board (IASB) and the ISSB. This includes providing input on auditability and assurability matters of their new and revised standards, thereby contributing to the quality of external reporting.
- Explore new ways to expand our collaboration with international standard-setting bodies and NSS.

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#### Proposed Strategic Objective 4: Create more Agile, Innovative Ways of Working in Line with the Monitoring Group's Reform Vision

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##### **Strategic Actions – We will:**

- Continue to transform our processes to further enhance the timeliness and effectiveness of our standard-setting activities and implement the Monitoring Group reforms. This includes understanding and addressing any areas of interdependency (operational or otherwise) between us and IESBA to enable effective coordination.
- With the support of the PIOB's Nominating Committee's, build a diverse Board that will enable us to continue to have the necessary expertise to respond to evolving public interest demands, as well as 'new' and different expectations in line with the Monitoring Group reform criteria.
- Enhance our technical Staff capacity and competencies to enable an independent technical team to take day-to-day responsibility of project development, under Board supervision and direction.
- In expanding and building our Staff team, continue to focus on an approach that promotes diversity, equity, and inclusion.
- Foster an environment that is conducive to the retention of talent, through appropriate governance and leadership, and Human Capital support as it relates to career advancement and professional and personal development opportunities, and progressive human resources policies and procedures.
- Consider more sustainable ways of working, including the development of appropriate policies, procedures, and measurements.
- Use technology to enhance our processes and the accessibility of our standards.

## Section III: Our Proposed Work Plan for 2024–2027

Our proposed Work Plan is focused on the ongoing, timely identification of new or emerging issues that may affect our global standards, and timely analysis and resolution of these identified issues.

Although past experience is an important input when doing forward planning, the implementation of the Monitoring Group reforms also brings some uncertainties around the full impact of those changes which may influence considerations such as available resources at certain times, the focus and number of new projects that can and should be undertaken, and the nature and timing of our project cycle.

Our proposed Work Plan assumes full utilization of our current resources and capacity (e.g., people, plenary time, and operating budget), and balances the current needs of different stakeholders. As the Work Plan period progresses, our Work Plan may change given the nature of the issues, the complexities of the projects, stakeholders' feedback, and new ways of working. In addition, we recognize the need to be flexible in view of pressures in the market in responding to our proposals or implementing our standards, and in responding to environmental changes. The latter includes changes that may be needed to accommodate capacity to address urgent or unexpected issues that arise and are not known at the time of approval of the Work Plan.

### *Balance Between Audits and Reviews, and Sustainability and Other Assurance Engagements*

A key characteristic of our proposed Work Plan is maintaining a balance in terms of our focus on both the traditional area of audits and reviews of financial statements, and the evolving area of sustainability and other assurance engagements. This is reflected below by distinguishing between these two broad focus areas in the following sections under “Planned Actions for 2024–2027”:

- Progressing and completion of projects underway at the start of 2024 (pages 16–17, including **Table A**)
- Our next projects for the Work Plan period (pages 17–22, including **Table B**)

As has been highlighted for proposed Strategic Objective 1, setting auditing standards remains a key priority for us. Our Work Plan will continue to reflect the revision and development of auditing standards on a timely basis to respond to the changing environment and the needs of our stakeholders. In addition, proposed Strategic Objective 2 reflects that sustainability reporting and the assurance thereon are rapidly evolving to take a position alongside financial statements in the context of meeting the needs of intended users of an entity's general purpose external reporting. Therefore, standard setting focused on sustainability assurance engagements will also be a key priority for us. We are mindful that the attention to non-financial information more broadly may also prompt demands for other assurance engagements.

### **Planned Actions for 2024–2027**

In 2021, we undertook a [Survey Consultation](#) to develop our 2022–2023 Work Plan (which was approved in December 2021). We drew on the results of that survey consultation and on other activities as highlighted in **Appendix 1** to develop our planned actions for 2024–2027.

## Progression and Completion of Projects Underway at the Start of 2024

Based on the feedback received through our 2021 survey consultation,<sup>4</sup> we plan to complete the projects underway at the start of 2024.

**Table A** below sets out the standard-setting projects that we will focus on progressing and completing in the Work Plan period. Refer to our [“Current Projects”](#) webpage that provides links to the project pages for more information about each project, including the project timeline and status of the project.<sup>5</sup>

Table A: Completion of Current Standard-Setting Projects		Targeted Milestones <sup>6</sup>
<b>AUDITS AND REVIEWS</b>		
<b>Audit Evidence (Revision of ISA 500)<sup>7</sup></b>		Exposure period closed pre-2024 Completion: H1 2024
<b>Going Concern (Revision of ISA 570 (Revised))<sup>8</sup></b>		Exposure period closed pre-2024 Completion: H1 2025
<b>Implications for IAASB Standards of IESBA’s Project on Listed Entity and Public Interest Entity – Track 2<sup>9</sup></b>		Exposure period closed pre-2024 Completion: H1 2025
<b>Fraud (Revision of ISA 240)<sup>10</sup></b>		Exposure period closes H1 2024 Completion: H1 2025
<b>SUSTAINABILITY AND OTHER ASSURANCE ENGAGEMENTS</b>		
<b>Overarching Standard for Assurance on Sustainability Reporting (ISSA 5000)<sup>11</sup></b>		Exposure period closes H1 2024 Completion: H2 2024 / H1 2025

<sup>4</sup> A [summary of the 2021 survey responses](#) was discussed at our September 2021 meeting.

<sup>5</sup> The project page for each of our current projects provides a project timetable that includes targeted dates for project proposal, exposure draft and final approval of a standard(s).

<sup>6</sup> Targeted milestones are our best estimate for how we will progress the various projects. As indicated at the start of the Work Plan, timelines are subject to change because of various factors that cannot be fully anticipated at the planning stage. Periods are indicated in half-years, for example “H1 2024” means the 1<sup>st</sup> half of 2024. H1 includes the period January through June, and H2 includes the period July through December of any calendar year.

<sup>7</sup> ISA 500, *Audit Evidence*

<sup>8</sup> ISA 570 (Revised), *Going Concern*

<sup>9</sup> Our Listed Entity and Public Interest Entity project is being undertaken on two tracks as explained in Section VII of the approved [Project Proposal](#). Track 1 will be completed in 2023 and Track 2 will still be underway at the start of 2024.

<sup>10</sup> ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

<sup>11</sup> International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*

### *Other Initiatives and Ongoing Activities*

In addition to our standard-setting projects, the following initiatives and activities will also continue in the Work Plan period with dedicated Staff resources and Board plenary time as needed:

#### Ongoing Workstreams

- Technology, including our focused efforts on disruptive technologies.<sup>12</sup>
- Professional skepticism.<sup>12</sup>
- Auditor reporting.<sup>12</sup>

#### Implementation Support Activities

- We will continue to be alert to the need for developing timely first-time implementation support materials, mindful that there are competing demands and our efforts will continue to be prioritized for standard-setting projects. A determination will be made in the context of each project, taking into account, for example, the nature, extent and complexities of new concepts and principles introduced, or the impact of significant issues addressed in planned or proposed changes. First-time implementation support materials may be developed by us, or we may facilitate and support action by others. In addition, the development of other non-authoritative guidance will mostly be limited to responding to significant unanticipated developments in the environment or addressing significant targeted issues that have arisen that require a more immediate response than standard setting can provide.

### **Our Next Projects for the Work Plan Period**

We will determine which new projects will commence during this Work Plan period in accordance with the criteria as set out in our Framework for Activities, including the appropriate time for a new project(s) to commence.

#### Criteria for Selecting and Prioritizing Topics to be Taken Up in Our Work Plan:

- A known public interest need or benefit for pursuing a project, taking account of the Public Interest Framework.
- Alignment with our goal, strategic drivers and strategic objectives.
- The other criteria for the selection of new projects or actions as set out in our Framework for Activities (i.e., the prevalence of the issue globally; Board action necessary to maintain or enhance quality of engagements; and urgency).
- The available resources, including Board capacity and Staff resources.

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<sup>12</sup> The main function of our consultation groups is to provide input and support to task forces, working groups or Staff on relevant matters relating to technology, professional skepticism and auditor reporting, respectively. In addition, our efforts around disruptive technologies will be ongoing and are specifically focused on:

- Building processes and structures to support our disruption initiative;
- Maintaining and improving our knowledge about disruption trends and their implications for standard-setting and the public interest; and
- Sharing knowledge to improve audit and assurance quality and thereby improve reporting quality.

Planned activities on candidate topics for new projects involve information gathering and research as contemplated in our Framework for Activities.<sup>13</sup> The nature, scope and timing of information gathering and research for a topic will be influenced by the criteria identified above, as well as the outcome of activities as the information gathering and research is undertaken. For example, initial fact finding to identify and understand the issues and challenges relating to a topic may reveal the need for more targeted information gathering such as through a public forum or roundtable(s), or to solicit views on identified matters through a discussion paper, consultation paper, request for input or a stakeholder survey. In such instances, the time for analysis of feedback and developing of recommendations will be extended, compared to another topic where the issues and challenges may be more readily apparent, and the topic can move faster through understanding, analysis, and recommendations. Based on the recommendations developed, we may decide to move to a project proposal to scope and formalize our standard-setting commitment for a new project, or that other action is warranted (e.g., development of non-authoritative guidance, or action by others and how we may coordinate and support action by others). In planning our detailed forward actions, we will always balance information gathering and research efforts with the need for timely action to address topics of significant and urgent public interest.

**Appendix 2** provides a high-level overview of the key milestones of our ‘normal’ project cycle for the revision or development of a standard.

#### *Commencement of New Projects as the Projects Already Underway Completes*

Subject to anticipated Board capacity, Staff resources, and the progression and completion of projects underway at the start of 2024 (see **Table A**), there will be a build up to and commencement of new projects. In line with proposed Strategic Objective 4, we will seek opportunities to advance targeted timelines, for example, through efficiencies in processes or procedures within the project cycle or innovating with respect to the project cycle.

Recognizing initial expectations about the impact of changes as a result of implementation of the Monitoring Group reforms, we anticipate that the ‘new’ Board and Staff model will be able to accommodate around five to seven parallel standard-setting projects. The number of standard-setting projects is dependent on the ‘mix’ of those projects, i.e., not all projects can be major revisions of existing, or development of new, standards as contemplated in Component II of our Framework for Activities. A portion would need to be narrow scope maintenance of standards projects (see Component III of our Framework for Activities).

**On balance, the following is expected in terms of commencement of new projects during the Work Plan period:**

- One new project in 2024;
- Two or three new projects in 2025;
- One or two new project(s) in 2026; and
- Depending on sequencing and progress of projects in the first three years, an additional new project in 2027.

<sup>13</sup> Staff commences information gathering and research activities well in advance of the first Board plenary discussion on a topic.

### *Possible Post-Implementation Review Projects*

The above outline of new projects to be commenced during the Work Plan period also encapsulates any post-implementation reviews that we decide to undertake.

Post-implementation reviews of new or revised standards are only considered after a significant period of global adoption and implementation of a standard (i.e., 3–5 years). This allows sufficient time for a new or revised standard to be properly embedded in practice and for internal and external monitoring purposes, in the context of global adoption across jurisdictions. In addition, a possible post-implementation review project would need to reach a level of priority that justifies its selection relative to the priority of other topics being considered for possible standard-setting projects (in applying the criteria as set out in our Framework for Activities). The following may be candidates for post-implementation review projects during the Work Plan period:

- ISA 540 (Revised),<sup>14</sup> *Auditing Accounting Estimates and Related Disclosures* (effective for audits of financial statements for periods beginning on or after December 15, 2019).
- ISA 315 (Revised 2019),<sup>15</sup> *Identifying and Assessing the Risks of Material Misstatement* (effective for audits of financial statements for periods beginning on or after December 15, 2021).
- The Quality Management Standards<sup>16</sup> (effective as of December 15, 2022).

### *Possible New Standard-Setting Projects*

**Table B** below sets out the proposed list of possible new standard-setting projects for commencement during the Work Plan Period.<sup>17</sup> Based on the current assessment of priorities, we anticipate that we would continue to run concurrent workstreams in the areas of audits and reviews of financial statements, and sustainability and other assurance engagements. The following broad prioritization of the candidate topics in **Table B** applies based on presently available information:

- For audits and reviews of financial statements
  - We would anticipate the next major project to be the revision of ISA 330<sup>18</sup> (see Topic B).
  - After the conclusion of ISA 500 (Revised), we would also assume a focus on identified standards in the ISA 500 series, with a strong link to the impact of technology (see Topics C to G).

<sup>14</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>15</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>16</sup> The Quality Management Standards consist of ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*; ISQM 2, *Engagement Quality Reviews*; and ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>17</sup> The topics in **Table B** are currently in Category A of Component I of our Framework for Activities, together with various other possible topics for our consideration. The topics presented in **Table B** are the likely candidates at this time to meet the criteria in our Framework for Activities to move into Category B during the Work Plan period (i.e., for more focused information gathering and research activities to identify and understand the relevant public interest issues and related standard-setting or other needs of stakeholders), and progress further through our Framework for Activities, as appropriate.

<sup>18</sup> ISA 330, *The Auditor's Procedures in Response to Assessed Risks*

- Unless we receive significant feedback about a particular topic(s) that indicates a need to prioritize ahead of other candidate topics, we anticipate that the remaining candidate topics would rank lower than those indicated above, but that could change due to changing external factors.
- For sustainability and other assurance engagements, the work would be determined by demands following the publication of ISSA 5000. We would expect that new projects may be driven by the relative importance and urgency at the time for developing further specific standards within the ISSA suite of standards (see Topic L). However, we are aware of the increased focus on XBRL in certain jurisdictions or regions, which may drive the global relevance of this topic (see Topic M). In addition, there may be a need for ISSA 5000 to first be adopted and implemented, which could be an important source of information about the need for further specific standards for which projects could then be undertaken.

**Table B: Possible New Standard-Setting Projects that May Commence in 2024–2027<sup>19</sup>**

**AUDITS AND REVIEWS**

**(in numerical order of standards that may be affected)**

**A. Materiality (Revision of ISA 320)<sup>20</sup>**

Revising ISA 320 to address issues and challenges related to consistency in the determination and revision of materiality and performance materiality, and to clarify the application of these concepts within a risk-based audit.

**B. Responding to Assessed Risks of Material Misstatement (Revision of ISA 330)**

Revising ISA 330 to better align the requirements with changes made to the risk identification and assessment standard (ISA 315 (Revised 2019)) and changes in proposed ISA 500 (Revised).<sup>21</sup> This would include revisions to modernize ISA 330 as necessary, in particular in relation to technology.

<sup>19</sup> The Framework for Activities provides for the narrow scope maintenance of standards (Component III), which is distinct from 'full scope' projects for the revision or development of standards (Component II). The former refers to projects addressing a limited number of targeted changes to either a single standard or across multiple standards (because of their expected nature and scope, these projects are expected to move quicker through the project cycle). We will monitor whether there are topics that could be addressed through a narrow scope maintenance of standards project. For example, when there is an urgent need to address an issue or when a standard-setting response is indicated (rather than non-authoritative material) but does not require a full scope revision of one or more standard(s). **Unless otherwise stated, possible projects to address topics in this table are expected to be full scope projects.**

<sup>20</sup> ISA 320, *Materiality in Planning and Performing an Audit*

<sup>21</sup> Proposed ISA 500 (Revised), *Audit Evidence*, was approved by us in September 2022 and the Exposure Draft was issued on October 24, 2022 (the comment period closes on April 24, 2023)

### Various Standards in the ISA 500 series

This could be potential individual projects for Topics C to F, or combined in a project for Topic G, with the focus on updates relating to the impact of technology.

Revising the following standards to better align the requirements with changes in proposed ISA 500 (Revised) (and other ISAs as may be appropriate), and to reflect the impact of technological advances (the use of technology by entities and by auditors). Some additional or specific matters are also highlighted.

- C. ISA 501<sup>22</sup>** – to modernize to reflect current methods for inventory counts. Could be a narrow scope project that targets the “Inventory” section of the standard.
- D. ISA 505<sup>23</sup>** – to modernize for the current environment, including technology-based confirmation processes and possibly revisiting the concepts of positive and negative confirmations.
- E. ISA 520<sup>24</sup>** – to address challenges in practice and expectations that come with the use of technology by entities and automated tools and techniques by auditors in the context of analytical procedures used to perform both risk assessment procedures and further audit procedures.
- F. ISA 530<sup>25</sup>** – to address issues and challenges related to consistency in the application of audit sampling as a means of selecting items for testing. In addition, to address challenges in practice and expectations that come with the use of technology by entities and automated tools and techniques by auditors.
- G. Technology targeted or omnibus project(s)** – to undertake a targeted or a broad-spectrum update of the ISAs for the impact of technology, which may primarily relate, or could be scoped to specifically address the audit evidence standards in the ISA 500 series and selected other ISAs. This could be an effective way to address some of the more pervasive modernization and technology challenges.

### H. Using the Work of an Auditor’s Expert (Revision of ISA 620)<sup>26</sup>

Revising ISA 620 to appropriately align with concepts in recently revised standards, including ISA 540 (Revised) and ISA 220 (Revised), and the changes in proposed ISA 500 (Revised). Also, to clarify some concepts and aspects of application in an environment where entities’ financial reporting reflects more complex business models, activities and transactions.

### I. Auditor Responsibilities Relating to Other Information (Revision of ISA 720 (Revised))<sup>27</sup>

Revising ISA 720 (Revised) to clarify the concepts underlying the auditor’s responsibilities and to address implementation issues and challenges that have been highlighted as part of the post-implementation review of the revised audit reporting standards. Could be a narrow scope project; there also is a view that a more fundamental revision of the standard may be warranted.

<sup>22</sup> ISA 501, *Audit Evidence – Specific Considerations for Selected Items*

<sup>23</sup> ISA 505, *External Confirmations*

<sup>24</sup> ISA 520, *Analytical Procedures*

<sup>25</sup> ISA 530, *Audit Sampling*

<sup>26</sup> ISA 620, *Using the Work of an Auditor’s Expert*

<sup>27</sup> ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*

**J. Review of Interim Financial Information (Revision of ISRE 2410)<sup>28</sup>**

Revising ISRE 2410 to update the standard to the clarity format, other possible changes to address issues and challenges identified (e.g., alignment with concepts and principles in other standards, such as ISA 570 (Revised), ISA 700 (Revised)<sup>29</sup> and ISA 701),<sup>30</sup> and to modernize the standard.

**K. Joint Audits (new standard)**

Standard-setting project to address the consistent application of the ISAs to joint audits in jurisdictions where joint audits are undertaken or to support the introduction of joint audits in other jurisdictions.

**SUSTAINABILITY AND OTHER ASSURANCE ENGAGEMENTS<sup>31</sup>**

**L. Further Standards for Assurance on Sustainability Reporting (new standards)**

We have decided to apply a phased approach to address the needs for assurance standards on sustainability reporting, which comprises: (1) immediate action to develop an overarching standard for sustainability assurance engagements (see **Table A**); (2) future actions to align with the evolving maturity over time of the needs of intended users of sustainability information, sustainability reporting standards, entities' reporting in accordance with such standards, and assurance practice.

- After completion of the overarching standard, we anticipate the need to continue to develop further standards as part of a bespoke suite of standards on sustainability assurance. These standards will provide more specific or granular requirements on individual elements of the assurance engagement or individual elements of an entity's sustainability reporting.
- The above approach would involve addressing multiple topics, which may each be considered a 'new' project in the context of the commencement of new projects from 2024 to 2027 (see explanation on page 18). In certain instances, it may be desirable to group a number of topics together (depending on their nature and extent) to represent a project.

**M. Assurance on XBRL (new standard)**

Explore the need for an assurance standard on XBRL in response to the increased focus and use of digital reporting (for financial and non-financial information). This could be a potential subject-matter specific standard that builds on and supplements the application of ISAE 3000 (Revised) for these assurance engagements.

<sup>28</sup> International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

<sup>29</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

<sup>30</sup> ISA 701, *Communicating Key Audit Matters in the Auditor's Report*

<sup>31</sup> We note that there may be a need for a possible project to revise International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, resulting from our work on sustainability assurance engagements and other feedback received. We recognize that any changes should not limit the application of ISAE 3000 (Revised) to all assurance engagements for which no stand-alone standard exists. However, we believe that such project will not be possible within the 2024–2027 Work Plan period but should continue to be tracked as a possible future project.

## **Coordination with Other Standard-Setting Boards**

### *IESBA*

As our projects progress during the Work Plan period, there may be matters that impact the IESBA's *International Code of Ethics for Professional Accountants (Including International Independence Standards)* (the IESBA Code). Similarly, matters under consideration by IESBA may have implications for our standards. We recognize the importance of ongoing coordination between us and IESBA on matters that may impact either the IESBA Code arising from the projects we undertake or the impact from the IESBA's activities on our standards. We will therefore continue to coordinate with IESBA at the Board, Task Force, Working Group, and Staff levels, in the context of specific topics where necessary and appropriate, and through regular leadership interactions and communications. In addition, project identification and scoping will benefit from an increased focus on timely coordination to understand and act on any commonalities of interest.

### *Other Global Standard-Setting Boards*

We will continue to liaise, and coordinate where necessary, with other global standard-setting boards. Active consultations will include, but are not limited to, the IASB and the ISSB on matters of auditability and assurability, respectively, of new and revised international financial or sustainability reporting standards.

## **Allocation of Resources**

Our Work Plan will draw on our full capacity to deliver high-quality standards and undertake our activities in a timely manner. The Work Plan as set out above is expected to be supported by a budget of approximately [TBC] in 2024. The budget for the newly formed 'Foundation' is affected by the funding arrangements agreed under the Monitoring Group reforms. These arrangements will evolve over the initial implementation period that falls within both our and IESBA's Work Plan period. On balance, the overall budget and allocations for both Boards are expected to be reasonably stable, with the possibility of agreed upward annual adjustments.

The work that can be undertaken is also limited to volunteer hours of our Board members and Staff capacity available to undertake activities that we have committed to. The number of technical Staff through permanent appointments and secondments will increase over time to ensure appropriate technical expertise and to facilitate the shift from the traditional Task Force-model for projects. The net positive impact of these changes is expected to become evident as the Board and Staff adapt throughout this Work Plan period.

We will allocate the above resources on the basis of information about new initiatives or projects that will need to be started and past experience of the capacity needed to deliver our projects and initiatives, while being mindful of making adjustments as we continue to adapt to the 'new model' as referred to above. We reserve a limited capacity to respond to unexpected events and we will be able to reallocate resources if, and when, needed (however, with consequential changes to timelines of projects). The resources needed and capacity for key deliverables contemplated in the Work Plan assumes nearly full utilization of all Staff and Board resources.

## Appendix 1

### The Development of this Consultation Paper

The development of this Consultation Paper was informed by:

- A [Stakeholder Survey](#) for our Work Plan 2022–2023.

We received 100 responses from a wide range of stakeholders including from a Monitoring Group member (the International Organization of Securities Commissions). A [summary of the survey responses](#) was discussed at our September 2021 meeting and the Work Plan 2022–2023 was approved in December 2021.

- Outreach by our Chair, Board members and senior and project Staff as part of our general outreach program, as well as project-specific outreach.

Details of our outreach activities are reported in Agenda Item 1 of every quarterly meeting and, in relation to project specific outreach, in the agenda materials for individual projects. This outreach included outreach with Monitoring Group members (e.g., the European Commission, the International Forum of Independent Audit Regulators, the International Organization of Securities Commissions and the Financial Stability Board).

- Discussions with the PIOB.
- Discussions with our Consultative Advisory Group.
- Regular engagements with our NSS.

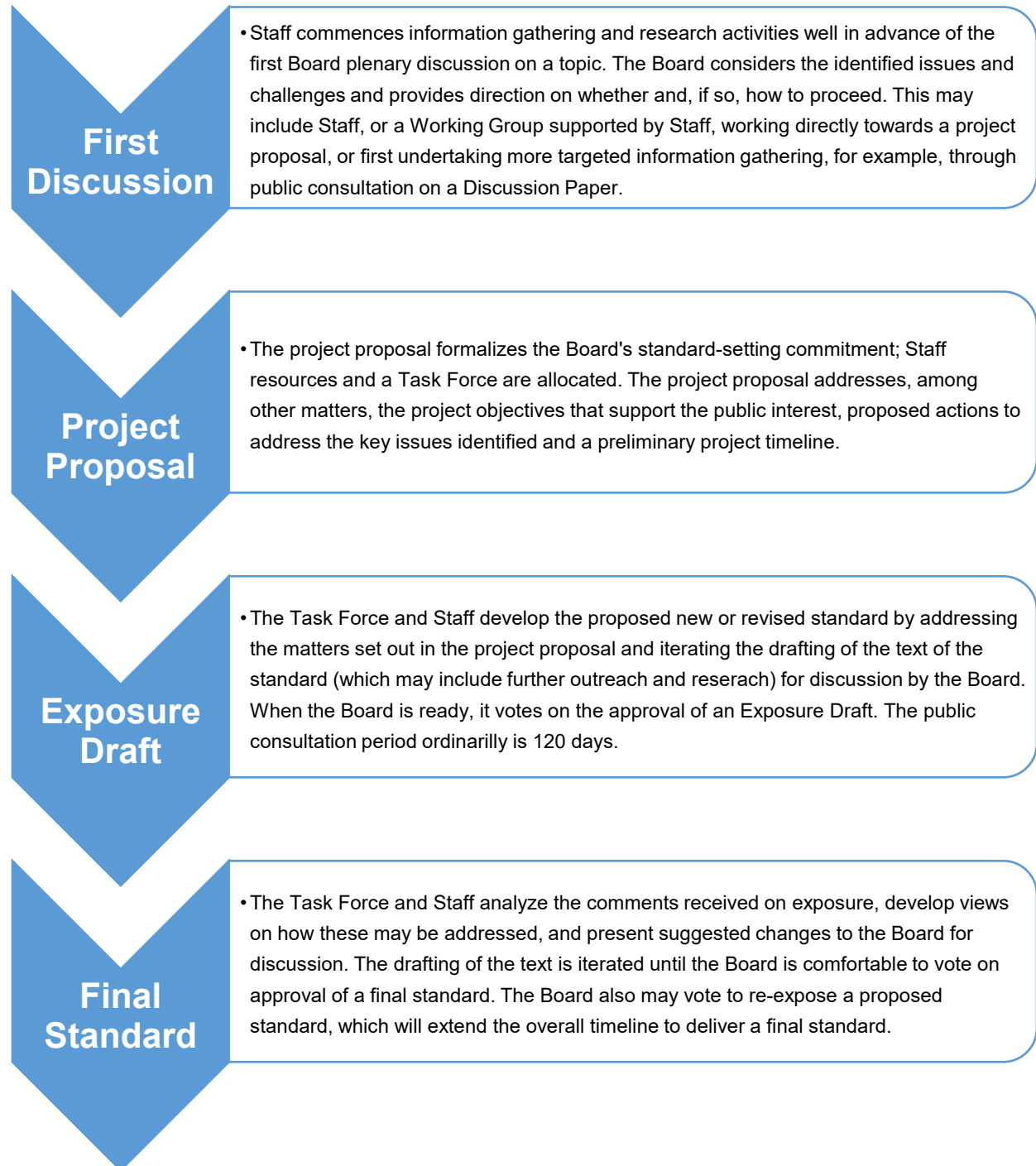
This includes annual or bi-annual meetings with NSS, which includes report back on requests for input to NSS about jurisdictional developments of international relevance, as well as bilateral outreach with individual NSS as part of our general outreach program or project-specific outreach.

- Input from coordination activities with IFAC, including IFAC's Small and Medium Practices Advisory Group and the Forum of Firms.
- Matters raised in our projects or ongoing workstreams where the matter(s) is not addressed by the specific project or workstream.
- Ongoing scanning of the environment and monitoring of global trends.

## Appendix 2

### Key Milestones of a Standard Setting Project

The following diagram provides a high-level overview of the key milestones of our ‘normal’ project cycle for the revision or development of a standard.



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December 2022

# **Consultation Paper**

## **Exposure of the IAASB's *Proposed ISA 500 (Revised), Audit Evidence***

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](http://www.auasb.gov.au)

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*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 500 (Revised), Audit Evidence 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.

Draft

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## **CONSULTATION PAPER**

### ***Exposure of the IAASB's Proposed ISA 500 (Revised), Audit Evidence 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 500 (Revised), Audit Evidence 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 released IAASB ED, and to identify potential compelling reasons<sup>1</sup> to modify ISA 500 (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 500 (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<sup>2</sup> questions at Attachment 1 by 31 March 2023. Stakeholders' responses to these questions will be used to inform the AUASB in their formal response to the IAASB. Additionally, responses will be used in AUASB deliberations regarding the issuance of the final Australian standard, including assessing compelling

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<sup>1</sup> Refer to paragraphs 22-23 for an explanation of compelling reasons.

<sup>2</sup> IAASB Explanatory Memorandum, *Section 3 Request for Comments*.

reasons<sup>3</sup> 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.

### **Consultation Paper Questions**

10. Stakeholders are asked to respond to the AUASB on the questions contained in Attachment 1 to this Consultation Paper.

### **Background** (Refer to IAASB Explanatory Memorandum, paragraphs 2-8, for detail)

#### **IAASB's Project and Key Proposals on Audit Evidence**

11. 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.
12. IAASB ED-500 is part of the IAASB's commitment to advancing audit quality globally and proposes to provide the auditor with a reference framework when making judgements about audit evidence throughout the audit. This includes clarifying the interaction between ISA 500 and the other International Auditing Standards.
13. The more significant changes proposed in ED ISA 500 have:
  - (a) Clarified the purpose and scope of the standard, through the introductory paragraphs and definitions and related application material and use of examples, including explaining the relationship with other standards.
  - (b) Developed a principles-based approach to considering and making judgments about information intended to be used as audit evidence and evaluating whether sufficient appropriate audit evidence has been obtained.
  - (c) Revised the definition of audit evidence, using the input-output model to determine what is audit evidence.
  - (d) Modernised ISA 500 to be adaptable to the current business and audit environment, while considering scalability for different circumstances, including the entity and the auditor's use of technology, such as automated tools and techniques.
  - (e) Emphasised the role of professional scepticism when making judgments about information intended to be used as audit evidence and evaluating the audit evidence obtained.
14. For a further understanding of the significant matters dealt with in the Consultation Paper stakeholders should refer to the IAASB EM - Section 2 paragraphs 2 to 61 below.

#### **Specific AUASB Considerations**

15. Australian stakeholders consistently provide feedback on the sufficiency of audit evidence and how to ascertain "how much is enough" and its interrelationship with appropriateness and persuasiveness. Paragraph 9 of the IAASB ED deals with the matter of what information is intended to be used as audit evidence and consideration of the source of the information and the relevance and reliability that are applicable in the circumstances. Additionally,

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<sup>3</sup> Refer to paragraphs 22-23 of this Consultation Paper for an explanation of compelling reasons.

application material has been included in paragraphs A34, A37, A63 and A64 around evaluating the relevance and reliability attributes and the interrelationships with the attributes of accuracy and completeness. To seek explicit feedback on this part of the IAASB ED the AUASB has included an Australian specific question in the AUASB Consultation Paper to the IAASB ED (Refer Attachment 1).

## **Application**

16. It is proposed that the revised standard will be applicable for audits of financial statements for 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**

17. The IAASB ED is issued for comment in Australia by the AUASB without modification.
18. 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.<sup>4</sup>
19. 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.
20. 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.
21. Following the consultation process, influencing the development of ED IAASB and assessing implications for the Australian market (focusing on the need for any compelling reasons), the AUASB will consider for approval a revised ASA 500, which will be based on the final approved revised ISAs.
22. 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<sup>5</sup> 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.

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<sup>4</sup> 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](#).

<sup>5</sup> 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.

23. 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.

#### **Comment Closing Date**

24. Comments to the AUASB will close **31 March 2023**. This is to allow stakeholders time to respond to the AUASB on the IAASB ED, for AUASB technical staff to collate all feedback, and for the AUASB to consider and approve our submission to the IAASB due on 24 April 2023.
25. At the completion of the exposure period, the AUASB will consider stakeholders' submissions:
- (a) to inform us when developing our response to the IAASB on their Exposure Draft; and
  - (b) where the AUASB determines that a compelling reason exists, to inform us as to whether modifications may be required when we are adopting the final standards.
26. 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.
27. Stakeholders are encouraged to access the websites of the [AUASB](#) and the [IAASB](#) to obtain further information, or contact the AUASB at [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au) with any specific queries.

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**ATTACHMENT 1**

**Overall Questions**

1. Is the purpose and scope of ED-500 clear? In this regard:
  - (a) Does ED-500 provide an appropriate principles-based reference framework for auditors when making judgments about audit evidence throughout the audit?
  - (b) Are the relationships to, or linkages with, other ISAs clear and appropriate?
2. What are your views about whether the proposed revisions in ED-500, when considered collectively as explained in paragraph 10 (see IAASB EM below), will lead to enhanced auditor judgments when obtaining and evaluating audit evidence?
3. What are your views about whether ED-500 has an appropriate balance of requirements and application material (see paragraph 11 of IAASB EM below)?
4. Do you agree that ED-500 is appropriately balanced with respect to technology by reinforcing a principles-based approach that is not prescriptive but accommodates the use of technology by the entity and the auditor, including the use of automated tools and techniques?
5. Do the requirements and application material in ED-500 appropriately reinforce the exercise of professional scepticism in obtaining and evaluating audit evidence?

**Specific Questions**

6. Do you support the revised definition of audit evidence? In particular, do you agree with the “input-output model” that information can become audit evidence only after audit procedures are applied to it?
7. Does the application material appropriately describe the interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence?
8. Will the requirements and application material in ED-500 support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence?
9. Do you agree with the separate conditional requirement to obtain audit evidence about the accuracy and completeness of information when those attributes are applicable in the circumstances?
10. Do you agree with the new “stand back” requirement for the auditor to evaluate audit evidence obtained from the audit procedures performed as a basis for concluding in accordance with ISA 330 that sufficient appropriate audit evidence has been obtained?
11. Are there any other matters you would like to raise regarding ED-500? 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

12. The AUASB is also seeking comments on the matters set out below:

- (a) **Effective Date**—Recognising that ED-500 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:

1. Further to question 7 above and with reference to paragraph 9 of the IAASB ED, do Australian stakeholders think that anything further could be considered to address the issue of sufficiency of audit evidence and its interrelationship with the appropriateness and persuasiveness of audit evidence?
2. 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?
3. 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.
4. 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.
5. 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?
6. What, if any, implementation guidance auditors, preparers and other stakeholders would like the AUASB to issue in conjunction with the release of ASA 500 (specific questions/examples would be helpful)?
7. Are there any other significant public interest matters that stakeholders wish to raise?

**Exposure Draft**  
**October 2022**  
*Comments due: April 24, 2023*

*International Standard on Auditing*

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# Proposed International Standard on Auditing 500 (Revised)

## Audit Evidence

and

## Proposed Conforming and Consequential Amendments to Other ISAs

## About the IAASB

This Exposure Draft was developed and approved by the International Auditing and Assurance Standards Board (IAASB).

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).

For copyright, trademark, and permissions information, please see page 83.

## REQUEST FOR COMMENTS

This Exposure Draft of proposed ISA 500 (Revised), *Audit Evidence*, 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 April 24, 2023.**

Respondents are asked to submit their comments electronically through the IAASB website, using the “[Submit 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](http://www.iaasb.org). The approved text is published in the English language.

# EXPLANATORY MEMORANDUM

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## Introduction

1. This memorandum provides background to, and an explanation of, the Exposure Draft of proposed International Standard on Auditing (ISA) 500 (Revised), *Audit Evidence* (ED-500), which was approved for exposure by the IAASB in September 2022.

## Background

2. Extant ISA 500 was considered as part of the IAASB's project to clarify its International Standards at the end of 2008. In addition, consequential amendments were made to the standard in 2018 as part of the IAASB's project to revise ISA 540<sup>1</sup> (i.e., to include material addressing external information sources, as defined).
3. The IAASB established a working group in January 2019 to identify and explore possible issues related to audit evidence, recognizing the evolution in the business environment and audit practice, including the use of technology by both the entity and the auditor. Based on initial feedback provided by the working group in June 2019, the IAASB was of the view that further information-gathering and targeted outreach activities were necessary to understand:
  - The extent to which the issues identified or other issues (if any) are creating challenges in practice, including the reasons or causes of those issues; and
  - How the issues may be best addressed.
4. In December 2020, the IAASB approved a [project proposal](#) to update ISA 500. Section II of the project proposal provides further background about the project, including the audit evidence-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. The project objectives, which are described in Section IV of the project proposal, can be summarized as follows:
  - Clarify the purpose and scope of ISA 500 and explain its relationship with other standards.
  - Develop a principles-based approach to considering and making judgments about information to be used as audit evidence and evaluating whether sufficient appropriate audit evidence has been obtained, recognizing the nature and sources of information in the current business and audit environment.
  - Modernize ISA 500 to be adaptable to the current business and audit environment, while considering the scalability of the standard to a wide variety of circumstances regarding the use of technology by the entity and the auditor, including the use of automated tools and techniques.
  - Emphasize the role of professional skepticism when making judgments about information to be used as audit evidence and evaluating audit evidence obtained.
5. In determining the scope of the project to update ISA 500, the IAASB also reached certain conclusions regarding the following matters that would not be addressed as part of the project to remain focused on addressing the identified public interest issues and emphasizing the nature and role of ISA 500 within the suite of ISAs:

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<sup>1</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

- Certain issues, primarily related to possible enhancements to other ISAs (e.g., ISA 330)<sup>2</sup> and assurance other than audits or reviews of financial statements, will form part of future work plan decisions in accordance with the IAASB's Framework for Activities.<sup>3</sup>
- Regarding technology, the project would not address how to design and perform audit procedures through the use of automated tools and techniques.

## **Coordination with IESBA and Other IAASB Task Forces and Consultation Groups**

### *IESBA*

6. In January 2022, Staff of the International Ethics Standards Board for Accountants (IESBA) performed a high-level review of ED-500 to identify any relevant ethical considerations or matters pertaining to audit evidence. Given the introduction of new or enhanced requirements in ED-500 to reinforce the auditor's exercise of professional skepticism, the IESBA Staff recommended that the IAASB consider:
  - The provisions related to an inquiring mind and professional judgment in the IESBA *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code).
  - Whether there may be matters included in the IESBA Exposure Draft [\*Proposed Technology-related Revisions to the Code\*](#) that may be relevant to the Task Force's work.
7. In July 2022, IESBA Staff performed a follow-up review of ED-500, noting that their recommendations were satisfactorily addressed. In addition, no significant matters warranting further IESBA coordination were noted.

### *IAASB Task Forces and Consultation Groups*

8. Since the approval of the project proposal, coordination activities with IAASB Task Forces or Consultation Groups included:
  - Fraud Task Force: Discussions regarding the proposed conforming amendments to ISA 240<sup>4</sup> and to align as closely as possible with the direction of proposed ISA 240 (Revised).
  - Professional Skepticism Consultation Group: Discussions focused on the approach taken in ED-500 on the exercise of professional skepticism and addressing auditor biases.
  - Technology Consultation Group: Discussions about examples in the application material to clarify how the principles of ED-500 may apply when using technology.

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<sup>2</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>3</sup> The IAASB's Framework for Activities sets out a framework for how it undertakes its work, including describing the processes and procedures for selecting and prioritizing specific activities to deliver on its committed actions.

<sup>4</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

## Section 1 Guide for Respondents

The IAASB welcomes comments on all matters addressed in ED-500, 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. Respondents are also free to address only questions relevant to them. When a respondent agrees with proposals in ED-500, 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.

## Section 2 Significant Matters

### Section 2-A – Public Interest Issues Addressed in ED-500

9. The table below sets out the key public interest issues identified by the IAASB related to audit evidence and how they have been addressed in ED-500.

Key Public Interest Issue	Description of Changes Made to Address Identified Key Public Interest Issues	Relevant Paragraphs in ED-500
<b>Responding to changes in the information that is being used by auditors, including the nature and source of the information</b>	<p><i>Adaptability and Scalability</i></p> <p>Developing a principles-based approach when making judgments about information intended to be used as audit evidence, for both internal and external sources of information. In doing so, the IAASB developed a set of attributes of relevance and reliability to enhance the auditor's judgments relating to audit evidence that is adaptable and scalable to a wide variety of circumstances. For example, in evaluating the relevance and reliability of all information intended to be used as audit evidence, ED-500 focuses the auditor's attention on:</p> <ul style="list-style-type: none"><li>• The attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose of the audit procedure.</li><li>• The source of the information and how the source may affect the auditor's judgments regarding the attributes of relevance and reliability that are applicable in the circumstances.</li></ul>	9, A34–A62

Key Public Interest Issue	Description of Changes Made to Address Identified Key Public Interest Issues	Relevant Paragraphs in ED-500
	<p><i>Using Information Prepared by a Management's Expert</i></p> <p>Enhancing and clarifying the auditor's responsibilities when using information intended to be used as audit evidence that has been prepared by a management's expert. For example,</p> <ul style="list-style-type: none"> <li>• Clarifying that the requirement builds on, and is incremental to, the overarching requirement to evaluate the relevance and reliability of information intended to be used as audit evidence; and</li> <li>• Focusing the auditor on understanding how management has considered the appropriateness of such information, including any modifications made by management.</li> </ul>	11, A66–A78
<p><b>Modernizing and supporting a principles-based standard that recognizes the evolution in technology</b></p>	<p><i>Adaptability and Scalability</i></p> <p>Reinforcing a principles-based approach that is not prescriptive to the use of technology but enables the auditor to apply the standard in an evolving audit environment with the increasing use of technology. For example, the application material:</p> <ul style="list-style-type: none"> <li>• Clarifies that the auditor may use manual or automated tools and techniques to perform audit procedures to obtain audit evidence;</li> <li>• Explains how the use of automated tools and techniques may affect auditor bias, including automation bias; and</li> <li>• Uses examples, as appropriate, that draw attention to or recognize the use of technology by the entity or by the auditor.</li> </ul>	A3–A4, A17, A22–A23, A27–A29, A32, A41–A42, A61, Appendix: 2, 5, 6,10

Key Public Interest Issue	Description of Changes Made to Address Identified Key Public Interest Issues	Relevant Paragraphs in ED-500
<b>Fostering the maintenance of professional skepticism when making judgments about information to be used as audit evidence and sufficient appropriate audit evidence</b>	<p><i>Fostering the Appropriate Exercise of Professional Skepticism</i></p> <p>Emphasizing the importance of professional skepticism, including when:</p> <ul style="list-style-type: none"> <li>• Designing and performing audit procedures in a manner that is not biased;</li> <li>• Evaluating the relevance and reliability of information intended to be used as audit evidence; and</li> <li>• Considering all audit evidence obtained, as a basis for concluding whether sufficient appropriate audit evidence has been obtained.</li> </ul>	4, 8(a), 9, 13, A19–A23, A43–A44, A51, A53, A57, A59–A62, A84–A88

10. In its deliberations on ED-500, the IAASB considered the effects on auditor behavior of the proposed changes related to the evaluation of information intended to be used as audit evidence and the sufficiency and appropriateness of audit evidence obtained. The IAASB is of the view that the proposed revisions in ED-500, in addressing the identified key public interest issues as described in the table above and as further explained in Sections 2B-2H below, collectively will lead to enhanced auditor judgments when obtaining and evaluating audit evidence.
11. The collection of proposed revisions also reflects the nature and role of ED-500 within the suite of ISAs. Paragraphs 8–14 of ED-500 provide the requirements that address the auditor's overarching responsibilities relating to audit evidence when designing and performing audit procedures, recognizing the interrelationship between ED-500 and other ISAs with respect to obtaining and evaluating audit evidence. The application material provides further explanation of the underlying concepts and guidance for implementing the requirements, including, as necessary, explaining what the requirements mean or intend to cover. The IAASB is interested in obtaining stakeholders' views about whether ED-500 achieves an appropriate balance of requirements and application material.

## **Section 2-B – Purpose and Scope of ED-500 and Linkage with Other Standards**

12. The IAASB's information gathering and targeted outreach activities indicated that stakeholders supported clarifying the purpose and scope of ISA 500, and its linkage with other standards, in particular ISA 330.

### *Purpose and Scope of ISA 500*

13. Extant ISA 500 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. It applies to all audit evidence obtained during the course of the audit. Extant ISA 500 also

states that other ISAs deal with specific aspects of the audit, the audit evidence to be obtained in relation to a particular topic, specific procedures to obtain audit evidence, and the evaluation of whether sufficient appropriate audit evidence has been obtained.

14. ED-500 retains this principles-based approach and serves as an overarching standard that deals with the auditor's responsibilities relating to audit evidence when designing and performing audit procedures (paragraph 1 of ED-500). Such responsibilities include evaluating the relevance and reliability of information intended to be used as audit evidence and evaluating the audit evidence obtained. In this regard, the IAASB noted that ED-500 provides an important underpinning, or "reference framework," for auditors when making judgments about audit evidence throughout the audit.
15. As explained in paragraph A2 of ED-500, audit procedures include risk assessment procedures, further audit procedures and other audit procedures that are performed to comply with the ISAs.

#### *Linkage with Other Standards*

16. ED-500 (paragraph 2) retains important links to ISA 200.<sup>5</sup> ISA 200 states that, as the basis for the auditor's opinion, the ISAs require 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. To obtain reasonable assurance, the auditor is required to 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.<sup>6</sup>
17. ED-500 (paragraph 3) also retains the link to other ISAs that may address specific matters and to the auditor's overall conclusion in ISA 330 about whether sufficient appropriate audit evidence has been obtained. The Appendix to ED-500 includes examples of other ISAs that may address the audit evidence to be obtained for specific matters.

#### **Section 2-C – Technology**

18. The table in paragraph 9 above describes the changes made in ED-500 to address the key public interest issue of revising extant ISA 500 to address the evolution in technology. Modernizing ISA 500 to be adaptable to the current business and audit environment, and to better reflect the digital era, has been a key driver of this project for the IAASB.
19. In developing ED-500, the IAASB has followed a principles-based approach to enable the standard to be applied in an evolving environment with increasing use of technology by both the entity and the auditor. The IAASB has aimed for a balanced approach that will allow ED-500 to remain fit for purpose. ED-500 is therefore not prescriptive with respect to the use of technology, but rather accommodates the use of technology by the auditor or the entity. The application material in ED-500 builds on the principles-based requirements to highlight the use of technology.

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<sup>5</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>6</sup> ISA 200, paragraph 17

## **Section 2-D – Professional Skepticism**

20. Based on its information-gathering activities, the IAASB concluded that ISA 500 could more robustly address the need for professional skepticism when making judgments about information to be used as audit evidence and whether sufficient appropriate audit evidence has been obtained.
21. The table in paragraph 9 above describes the changes made in ED-500 to address the key public interest issue of fostering the exercise of professional skepticism related to judgments about audit evidence. The IAASB added a paragraph to the Introduction of ED-500 (paragraph 4) to further highlight the link to ISA 200 and the emphasis on maintaining professional skepticism in planning and performing the audit, and in critically assessing audit evidence.

## **Section 2-E – Definitions**

### *Audit Evidence*

22. Extant ISA 500 defines audit evidence as information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. As part of the IAASB's information-gathering activities in relation to audit evidence, stakeholders noted that, in referring to "information used by the auditor," the definition implies that the auditor is doing something to or with such information.
23. The IAASB therefore discussed and agreed that the revised definition in ED-500 should reflect that information (i.e., the "input") needs to be subject to audit procedures to become audit evidence (i.e., the "output"). The term "information intended to be used as audit evidence" is used in ED-500 to describe the "input" to which audit procedures are applied, including evaluating the relevance and reliability of the information. See Section 2-G below for a further discussion about the required evaluation of the relevance and reliability of information intended to be used as audit evidence in accordance with paragraph 9 of ED-500. Paragraph A34 of ED-500 provides application material that explains the concept of information intended to be used as audit evidence.
24. The revised definition of audit evidence in ED-500 (paragraph 7(b)) describes audit evidence as information, to which audit procedures have been applied, that the auditor uses to draw conclusions that form the basis for the auditor's opinion and report (emphasis added). The IAASB added the reference to the report based on paragraph A30 of ISA 200, as audit evidence is in fact needed to support the auditor's conclusions in forming an opinion and in preparing and issuing the auditor's report. Other references throughout ED-500, including in the objectives (paragraph 6(a)) are only to the auditor's opinion because, in most cases, such references are in the context of obtaining sufficient appropriate audit evidence to enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.

### *Sufficiency and Appropriateness of Audit Evidence*

25. Regarding the sufficiency of audit evidence, stakeholders in the IAASB's targeted outreach activities noted that the significant increase in sources of information has led to greater uncertainty in auditor judgments about "how much evidence is enough" in the circumstances, and how or whether the concept of persuasiveness of audit evidence may address this uncertainty. Stakeholders broadly agreed that the extant definition of appropriateness of audit evidence is generally appropriate, but acknowledged that more guidance may be needed regarding the relevance and reliability of information intended to be used as audit evidence.

26. In its deliberations, the IAASB expressed concerns about introducing changes to the definitions that may not affect auditor behavior, noting that the concepts of sufficiency and appropriateness are well embedded and not broken, and are fundamental to the ISAs as a whole. Therefore, the IAASB has retained the concepts of appropriateness as the measure of the quality of audit evidence, and sufficiency as the measure of the quantity of audit evidence, in providing support for the conclusions that form the basis for the auditor's opinion (paragraphs 7(a) and 7(d) of ED-500).
27. Application material, some of which is drawn from extant ISA 500, is included in ED-500 to support both definitions. The IAASB noted that the extant ISA 500 definition of appropriateness refers to the relevance and reliability of audit evidence, whereas the focus in ED-500 is on evaluating the relevance and reliability of information intended to be used as audit evidence. The IAASB is of the view that the appropriateness (i.e., the quality) of audit evidence is affected by the relevance and reliability of information intended to be used as audit evidence, as well as the effectiveness of the design of audit procedures applied to the information and the auditor's application of those audit procedures. Paragraph A13 of ED-500 describes this point.

#### *Interrelationship of the Sufficiency, Appropriateness and Persuasiveness of Audit Evidence*

28. The project proposal indicated that the IAASB would explore the relevancy of the notion of the "persuasiveness" of audit evidence in the context of ISA 500, given the auditor's responsibility to obtain more persuasive audit evidence the higher the auditor's assessment of risk in accordance with ISA 330.<sup>7</sup> The IAASB supported introducing the concept of persuasiveness in ED-500 but not a definition of the term. The IAASB added application material (paragraphs A6-A9 of ED-500) to explain the interrelationship of these concepts, including factors that may affect the sufficiency and appropriateness of audit evidence, and therefore its persuasiveness.

#### *Other Definitions*

29. Extant ISA 500 includes a definition of accounting records, although there is no reference to the term in the requirements of the extant standard. However, the term "accounting records" is included in the requirements of other ISAs, including ISA 315 (Revised 2019).<sup>8</sup> Therefore, the IAASB is proposing to add a definition of accounting records to ISA 315 (Revised 2019) as a consequential amendment arising from ED-500.
30. The definition of an external information source (EIS) was introduced into extant ISA 500 as a consequential amendment arising from ISA 540 (Revised). The definition of EIS has been removed in ED-500 because the term is not used in the requirements of ED-500 and is primarily referred to in the application material in other ISAs. However, the IAASB is of the view that a description of an EIS is still necessary in the application material in ED-500 as such description assists the auditor in distinguishing whether information prepared by an external individual or organization that is used by management in preparing the financial statements is an EIS or information prepared by a management's expert (see further explanation in paragraph A48 of ED-500). The IAASB also considered the application material related to EIS in paragraphs A39-A44 of extant ISA 500, noting that some of the concepts were also relevant to information from other sources and are not unique to information from an EIS. In developing ED-500, the IAASB streamlined this application material but retained concepts or guidance related more specifically to an EIS.

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<sup>7</sup> ISA 330, paragraph 7(b)

<sup>8</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph 25(a)(ii)

## **Section 2-F – Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence**

31. Paragraph 6 of extant ISA 500 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. The IAASB discussed whether ISA 500 continues to be the appropriate location for this requirement or whether it would be better placed in another ISA, such as ISA 200.
32. The IAASB is of the view that the requirement should remain in ED-500 (paragraph 8) because ED-500 provides a reference framework for the auditor throughout the audit in making judgments about audit evidence when designing and performing audit procedures, and therefore further strengthens the link between ED-500 and the other ISAs.
33. The IAASB supported the enhancement of paragraph 8 of ED-500 to reinforce the exercise of professional skepticism by requiring auditors to design and perform audit 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 (paragraph 8(a)). This wording is consistent with requirements in ISA 315 (Revised 2019)<sup>9</sup> and ISA 540 (Revised).<sup>10</sup> Paragraph A20 of ED-500 was added to explain that designing and performing audit procedures in an unbiased manner relates to all audit procedures and what this involves.
34. The application material to paragraph 8(a) of ED-500 links to ISA 220 (Revised), and indicates that an awareness of unconscious or conscious auditor biases when designing and performing audit procedures may help to mitigate impediments to the exercise of professional skepticism. The guidance includes possible actions the auditor may take to mitigate the risk of automation bias when using automated tools and techniques, while recognizing that there may be circumstances when the use of automated tools and techniques may be more effective or provide more persuasive audit evidence than performing audit procedures manually.

### *Types of Audit Procedures*

35. Extant ISA 500 includes application material describing and distinguishing between the different types of audit procedures that may be performed to obtain audit evidence. New technologies have raised questions about how audit procedures performed using automated tools and techniques fall within the types of audit procedures described in extant ISA 500 and other ISAs.
36. Furthermore, input from the IAASB's outreach activities indicated that the classification of audit procedures by nature and type was creating challenges in practice as the use of new audit tools and techniques may involve a blend of types of procedures, or the types of procedures described in the ISAs may not fully describe the procedure being performed. The IAASB is of the view that it is more important for auditors to focus on the appropriateness of the audit procedures in the circumstances (i.e., whether the audit procedures are appropriately designed to achieve their intended purpose, and have been effectively applied by the auditor) rather than the type of audit procedure (i.e., in which "category" the audit procedure falls).

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<sup>9</sup> ISA 315 (Revised 2019), paragraph 13

<sup>10</sup> ISA 540 (Revised), paragraph 18

37. Accordingly, the IAASB relocated the application material describing the types of audit procedures to the Appendix in ED-500. In doing so, examples were added to modernize the types of audit procedures, including references to technology and the use of automated tools and techniques.

#### *Selecting Items for Testing*

38. Paragraph 10 of extant ISA 500 requires the auditor, when designing tests of controls and tests of details, to determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure. The IAASB discussed whether this requirement may be better placed in ISA 330 as it relates to the design of audit procedures in response to assessed risks. However, the IAASB noted that determining how items will be selected for testing is an integral part of designing audit procedures that are appropriate in the circumstances to provide audit evidence to meet the intended purpose of the procedures. Therefore, the IAASB subsumed paragraph 10 of extant ISA 500 into paragraph 8(b) of ED-500.
39. The IAASB is of the view that the enhanced requirement in paragraph 8(b) of ED-500 is a more robust approach in today's environment because it is principles-based and applies to all audit procedures. The related application material in ED-500 has been revised and modernized to indicate that the auditor may use automated tools and techniques to identify and select items for testing.

#### **Section 2-G – Relevance and Reliability of Information Intended to Be Used as Audit Evidence**

40. Paragraph 7 of extant ISA 500 requires the auditor, when designing and performing audit procedures, to consider the relevance and reliability of the information to be used as audit evidence, including information obtained from an external information source. The requirement in paragraph 9 of extant ISA 500 is focused on information produced by the entity and evaluating whether that information is sufficiently reliable for the auditor's purposes, including obtaining audit evidence about the accuracy and completeness of the information.
41. Given the changes in the nature and number of information sources and the evolution in technology, ED-500 includes a principles-based requirement to evaluate the relevance and reliability of information intended to be used as audit evidence (paragraph 9 of ED-500). In making this evaluation, the auditor considers the source of the information and the attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose of the audit procedures in which such information will be used.
42. The IAASB is of the view that the requirement in paragraph 9 of ED-500 will provide for a robust evaluation of the relevance and reliability of information intended to be used as audit evidence. However, the IAASB cautioned against creating an unnecessary burden on auditors in making this evaluation. The IAASB's intention was to develop a principles-based requirement that is capable of demonstrating the varying degree of work effort needed in the particular circumstances (i.e., is scalable). The reference to "given the intended purpose of the audit procedures" in paragraph 9(b) of ED-500 addresses this scalability by indicating that the auditor's professional judgment about the attributes that are applicable in the circumstances takes into account how that information will be used in designing and performing the audit procedures.
43. Paragraph A35 of ED-500 explains that the auditor's evaluation of relevance and reliability is an iterative process that involves professional judgment. Factors that affect the auditor's evaluation include what information exists that may be used as audit evidence and in what form, and whether such information is available, accessible and understandable. Evaluating the relevance and reliability

of information intended to be used as audit evidence involves performing audit procedures, the nature, timing and extent of which may vary (paragraph A36 of ED-500). The evaluation may be performed concurrently with audit procedures applied to the information and in some cases may be straightforward (paragraph A37 of ED-500). Also, audit evidence obtained from performing other audit procedures in accordance with the ISAs may assist in the auditor's evaluation (paragraph A38 of ED-500).

#### *Sources of Information*

44. Paragraphs A48-A52 of ED-500 describe the various sources of information intended to be used as audit evidence. This application material explains that the source of the information may affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances, and the nature and extent of the auditor's evaluation of the relevance and reliability of the information. The application material further explains that obtaining audit evidence in an unbiased manner may involve obtaining information from multiple sources. However, the auditor is not required to perform an exhaustive search to identify all possible sources of information to be used as audit evidence.

#### *Attributes of Relevance and Reliability*

45. Paragraph A53 of ED-500 explains that the quality of audit evidence depends on the relevance and reliability of the information upon which it is based. Accordingly, the auditor is required to consider the attributes of relevance and reliability of the information that are applicable in the circumstances as part of the auditor's evaluation in accordance with paragraph 9 of ED-500. Whether, and the degree to which, certain attributes are applicable in the circumstances is a matter of professional judgment.
46. Paragraphs A54-A62 of ED-500 describe the attributes of relevance and reliability, including factors that affect the auditor's professional judgment regarding the attributes that are applicable in the circumstances.
47. As described in paragraph 42 above, the IAASB cautioned against creating an unnecessary burden on auditors in evaluating the relevance and reliability of information. In this regard, the IAASB emphasized in its deliberations that all of the attributes of relevance and reliability may not be applicable in the circumstances and that the attributes in ED-500 are not intended to be used as a checklist.
48. The IAASB also discussed concerns about the auditor's documentation of the evaluation of relevance and reliability and the consideration of the attributes that are applicable in the circumstances. Paragraph A40 of ED-500 was added to explain that the requirements in ISA 230<sup>11</sup> about the form, content and extent of audit documentation also apply to the documentation of the auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence. Paragraph A40 further explains that the documentation of audit procedures performed in accordance with other ISAs may include documentation about the auditor's consideration of attributes of relevance and reliability that are applicable in the circumstances. However, ED-500 does not require the auditor to document the consideration of every attribute of relevance and reliability of information.

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<sup>11</sup> ISA 230, *Audit Documentation*

### *Accuracy and Completeness of Information Intended to Be Used as Audit Evidence*

49. Extant ISA 500 (paragraph 9) is a conditional requirement that applies when the auditor is using information produced by the entity. In these circumstances, extant ISA 500 requires the auditor to evaluate whether the information is sufficiently reliable for the auditor's purposes, including, as necessary in the circumstances:
- Obtaining audit evidence about the accuracy and completeness of the information; and
  - Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes.
50. As noted in paragraph 41 above, paragraph 9 of ED-500 is a principles-based requirement to evaluate the relevance and reliability of information intended to be used as audit evidence, irrespective of the source of the information. The IAASB had extensive discussions about this requirement, and had mixed views about whether and how the requirement should address accuracy and completeness of the information, including:
- Whether it is necessary to specifically call out the consideration of certain attributes (i.e., accuracy and completeness) in paragraph 9 of ED-500, given the principles-based nature of the requirement; and
  - Concerns about the robustness of the requirement compared to paragraph 9 of extant ISA 500, noting that accuracy and completeness are generally important considerations, particularly for information generated internally from the entity's information system.
51. Based on its discussions, a majority of the IAASB supported a separate conditional requirement (paragraph 10 of ED-500) for the auditor to obtain audit evidence about the accuracy and completeness of information if such attributes are applicable in the circumstances in accordance with paragraph 9(b). On balance, the IAASB concluded that the separate requirement highlights the importance of considering the accuracy and completeness of information, particularly information generated internally from an entity's information system, and is responsive to inspection findings from audit regulators.
52. The IAASB also developed application material (paragraphs A63-A65 of ED-500) to explain circumstances in which the auditor may consider the attributes of accuracy and completeness to be applicable in the circumstances, and how audit evidence about accuracy and completeness may be obtained.

### *Information Intended to Be Used as Audit Evidence Prepared by a Management's Expert*

53. Paragraph 8 of extant ISA 500 deals with the auditor's requirements if information to be used as audit evidence has been prepared using the work of a management's expert. The revised requirement in ED-500 (paragraph 11 of ED-500) relates to and builds upon the principles-based requirement in paragraph 9 of ED-500 to evaluate the relevance and reliability of information intended to be used as audit evidence, irrespective of the source. Accordingly, paragraph 11 of ED-500 includes a reference to paragraph 9 to clarify that the requirements are related, but incremental, to the required evaluation of relevance and reliability of the information. The conditionality in the extant ISA 500 requirement ("to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes") was considered unnecessary and therefore deleted, given that paragraph 9(b) refers to the intended purpose of the audit procedures.

54. Paragraph 11 of ED-500 also:

- Retains the extant ISA 500 requirement to evaluate the competence, capabilities and objectivity of the management's expert. The IAASB is of the view that the importance of such evaluation is well understood by stakeholders and is in the public interest when management uses information prepared by an expert in the preparation of the financial statements.
- Requires the auditor to obtain an understanding of the work performed by the management's expert. In this regard, the IAASB noted that an understanding of the work performed by the management's expert would include an understanding of the underlying information that has been prepared by the management's expert.
- Adds a requirement for the auditor to obtain an understanding about how the information prepared by that expert has been used by management in the preparation of the financial statements. The requirement in paragraph 8(c) of extant ISA 500 to evaluate the appropriateness of the expert's work as audit evidence for the relevant assertion was deemed redundant because paragraph 8(b) of ED-500 already requires the auditor to design and perform audit procedures that are appropriate in the circumstances to provide audit evidence to meet the intended purpose of the procedures (e.g., to respond to an assessed risk for a relevant assertion).

*Doubts About the Relevance or Reliability of Information Intended to Be Used as Audit Evidence*

55. The IAASB discussed that paragraph 11 of extant ISA 500 deals with two different matters i.e., inconsistencies in audit evidence, and doubts over the reliability of information to be used as audit evidence. Therefore, in developing ED-500, the IAASB created two separate requirements. Paragraph 12 of ED-500 addresses the auditor's required actions if the auditor has doubts about the relevance or reliability of information intended to be used as audit evidence. Paragraph 14 of ED-500 addresses the auditor's required actions if the auditor obtains audit evidence that is inconsistent with other audit evidence, as further explained in paragraph 61 below.

56. The IAASB discussed whether the auditor should be required to attempt to seek additional or alternative information if the auditor has doubts about the relevance or reliability of information intended to be used as audit evidence. However, the IAASB is of the view that there may be circumstances in which the auditor may be able to perform audit procedures to resolve doubts about the relevance or reliability of information intended to be used as audit evidence, as explained in paragraph A81 of ED-500. In other circumstances, the auditor may need to seek alternative or additional information, which may include information from external sources.

**Section 2-H – Evaluating the Audit Evidence Obtained**

57. Paragraph 13 of ED-500 introduces a new “stand back” requirement for the auditor to evaluate audit evidence obtained from the audit procedures performed as a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with ISA 330.<sup>12</sup> This stand back also helps to “close the loop” on the requirement in paragraph 8(b) of ED-500 for the auditor to design and perform audit procedures that are appropriate in the circumstances to provide audit evidence to meet the intended purpose of those procedures. This applies to audit evidence obtained from all audit

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<sup>12</sup> ISA 330, paragraph 26

procedures, including risk assessment procedures, and therefore also serves to reinforce the requirement in paragraph 35 of ISA 315 (Revised 2019).

58. The stand back in paragraph 13 of ED-500 also emphasizes the exercise of professional skepticism by requiring the auditor to 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.
59. The reference in paragraph 13 of ED-500 to whether audit evidence appears to corroborate or contradict the assertions in the financial statements mirrors the wording in paragraph 26 of ISA 330. The IAASB discussed whether the relationship between ED-500 and ISA 330 might be strengthened by deleting that wording in paragraph 26 of ISA 330 through a conforming amendment. However, on balance, the IAASB concluded that the wording is appropriate in both standards, and should be retained in ISA 330 as it provides an important link to ISA 700 (Revised) when forming an opinion on the financial statements.
60. The IAASB also discussed the level at which the evaluation in paragraph 13 of ED-500 is done. The IAASB noted that this evaluation is intended to be performed at the same level as the auditor's conclusion on whether sufficient appropriate audit evidence has been obtained in accordance with paragraph 26 of ISA 330. ISA 330 requires the nature, timing and extent of further audit procedures to be based on and responsive to the assessed risks of material misstatement at the assertion level. The IAASB added application material (paragraph A85 of ED-500) to explain that the auditor's evaluation required by paragraph 13 of ED-500 is made in the context of the requirements of ISA 330 and therefore is focused on whether the audit evidence obtained meets the intended purpose of the audit procedures performed for relevant assertions for significant classes of transactions, account balances and disclosures.
61. As noted in paragraph 55 above, ED-500 also includes a conditional requirement to address inconsistencies in the audit evidence obtained (paragraph 14 of ED-500). In these circumstances, the auditor is required to take actions as necessary to understand and address the inconsistency and to consider the effect, if any, on other aspects of the audit. The IAASB noted that individual pieces of audit evidence obtained may be consistent among themselves, or certain pieces may be inconsistent with others. After any inconsistencies have been addressed, the audit evidence would then become part of the basis for the auditor's overall conclusion about whether sufficient appropriate audit evidence has been obtained.

## **Section 2-I – Conforming and Consequential Amendments**

62. The IAASB is proposing a number of conforming and consequential amendments arising from ED-500. 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. In many cases, the changes relate to aligning the terminology or wording with ED-500.

## ISA 200

63. ISA 200<sup>13</sup> and extant ISA 500 both have a definition of audit evidence. The extant ISA 500 definition is included in the IAASB's Glossary of Terms.<sup>14</sup> These definitions have different constructs, which has led to questions about why they are different, whether both are needed, and whether or how they should be aligned.
64. The IAASB discussed whether the definition in ISA 200 should be updated to align with the proposed revised definition of audit evidence in paragraph 7(b) of ED-500, or whether the definition in ISA 200 should be deleted (i.e., have only a single definition of audit evidence in ED-500).
65. Given that ISA 200 is a foundational standard, the IAASB recognized that there may be merit in keeping the definition of audit evidence in both standards. However, on balance, the IAASB supported deleting the definition in ISA 200 and therefore is proposing a consequential amendment to ISA 200 to do so.

## ISA 315 (Revised 2019)

66. As described in paragraph 29 above, the IAASB is proposing to add a definition of accounting records to ISA 315 (Revised 2019) as a consequential amendment arising from ED-500.

## ISA 330

67. The IAASB noted that paragraph 26 of ISA 330 refers to considering "all relevant audit evidence obtained, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements." In contrast, paragraph 13(b) of ED-500, which is intended to provide a basis for the auditor's overall conclusion in accordance with paragraph 26 of ISA 330, refers to "all audit evidence obtained."
68. The IAASB is of the view that the reference to considering "all audit evidence" in paragraph 13(b) of ED-500 is appropriate. Paragraph 9 of ED-500 requires the auditor to evaluate the relevance and reliability of information intended to be used as audit evidence. By definition, audit evidence is information, to which audit procedures have been applied, that the auditor uses to draw reasonable conclusions that form the basis for the auditor's opinion and report. Accordingly, audit evidence obtained that has been evaluated in accordance with paragraph 13 of ED-500 is relevant (and reliable) (i.e., there is no concept of "irrelevant" audit evidence).
69. Therefore, the IAASB is proposing a conforming amendment to paragraph 26 of ISA 330 to delete the word "relevant" to align with the wording in paragraph 13(b) of ED-500.

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<sup>13</sup> ISA 200, paragraph 13(b)

<sup>14</sup> See digital Handbook of the [IAASB's International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements](#)

## 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-500. In this regard, comments will be most helpful if they are identified with specific aspects of ED-500 and include the reasons for any concern about clarity, understandability and practicality of application, along with suggestions for improvement. When a respondent agrees with the proposals in ED-500, it will be helpful for the IAASB to be made aware of this view.

### Overall Questions

1. Is the purpose and scope of ED-500 clear? In this regard:
  - (a) Does ED-500 provide an appropriate principles-based reference framework for auditors when making judgments about audit evidence throughout the audit?
  - (b) Are the relationships to, or linkages with, other ISAs clear and appropriate?
2. What are your views about whether the proposed revisions in ED-500, when considered collectively as explained in paragraph 10 above, will lead to enhanced auditor judgments when obtaining and evaluating audit evidence?
3. What are your views about whether ED-500 has an appropriate balance of requirements and application material (see paragraph 11 above)?
4. Do you agree that ED-500 is appropriately balanced with respect to technology by reinforcing a principles-based approach that is not prescriptive but accommodates the use of technology by the entity and the auditor, including the use of automated tools and techniques?
5. Do the requirements and application material in ED-500 appropriately reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence?

### Specific Questions

6. Do you support the revised definition of audit evidence? In particular, do you agree with the “input-output model” that information can become audit evidence only after audit procedures are applied to it?
7. Does the application material appropriately describe the interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence?
8. Will the requirements and application material in ED-500 support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence?
9. Do you agree with the separate conditional requirement to obtain audit evidence about the accuracy and completeness of information when those attributes are applicable in the circumstances?
10. Do you agree with the new “stand back” requirement for the auditor to evaluate audit evidence obtained from the audit procedures performed as a basis for concluding in accordance with ISA 330 that sufficient appropriate audit evidence has been obtained?
11. Are there any other matters you would like to raise regarding ED-500? 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**

12. 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 ED-500.
- (b) **Effective Date**—Recognizing that ED-500 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 IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.

# PROPOSED INTERNATIONAL STANDARD ON AUDITING 500 (REVISED)

## AUDIT EVIDENCE

(Effective for audits of financial statements for periods  
beginning on or after December 15, 20XX)

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## Introduction

### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to audit evidence when designing and performing audit procedures. Such responsibilities include evaluating the relevance and reliability of information intended to be used as audit evidence and evaluating the audit evidence obtained. (Ref: Para. A1-A4)
2. ISA 200<sup>1</sup> deals with the overall responsibilities of the auditor in conducting an audit of the financial statements. ISA 200 requires the auditor to 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.<sup>2</sup> (Ref: Para. A5-A12)
3. This ISA is applicable to all audit evidence obtained during the audit. Other ISAs may address the audit evidence to be obtained for specific matters (e.g., audit evidence related to risk assessment procedures performed in accordance with ISA 315 (Revised 2019)).<sup>3</sup> In addition, ISA 330<sup>4</sup> deals with, among other matters, the auditor's overall responsibility to obtain sufficient appropriate audit evidence and to conclude whether sufficient appropriate audit evidence has been obtained.

### *Professional Judgment and Professional Skepticism*

4. As explained in ISA 200, the ISAs require that the auditor exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit.<sup>5</sup> This ISA further emphasizes maintaining professional skepticism in planning and performing the audit, and in critically assessing audit evidence, by, for example:
  - Designing and performing audit procedures in a manner that is not biased.
  - Evaluating the relevance and reliability of information intended to be used as audit evidence.
  - Considering all audit evidence obtained, whether consistent or inconsistent with other audit evidence and regardless of whether it appears to corroborate or contradict the assertions in the financial statements, as a basis for concluding whether sufficient appropriate audit evidence has been obtained.

### Effective Date

5. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 20XX.

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<sup>1</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>2</sup> ISA 200, paragraph 17

<sup>3</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>4</sup> ISA 330, *The Auditor's Responses to Assesses Risks*

<sup>5</sup> ISA 200, paragraph 7

## Objectives

6. The objectives of the auditor are to:
  - (a) Design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion, and
  - (b) Evaluate information intended to be used as audit evidence, and the audit evidence obtained, to provide a basis for the auditor to conclude whether sufficient appropriate audit evidence has been obtained.

## Definitions

7. For purposes of the ISAs, the following terms have the meanings attributed below:
  - (a) Appropriateness (of audit evidence) – The measure of the quality of audit evidence in providing support for the conclusions that form the basis for the auditor's opinion. (Ref: Para. A13)
  - (b) Audit evidence – Information, to which audit procedures have been applied, that the auditor uses to draw conclusions that form the basis for the auditor's opinion and report.
  - (c) Management's expert – An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.
  - (d) Sufficiency (of audit evidence) – The measure of the quantity of audit evidence in providing support for the conclusions that form the basis for the auditor's opinion. (Ref: Para. A14)

## Requirements

### Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence

8. For the purpose of obtaining sufficient appropriate audit evidence, the auditor shall design and perform audit procedures: (Ref. Para. A15–A18)
  - (a) In a manner that is not biased towards obtaining audit evidence that may be corroborative, or towards excluding audit evidence that may be contradictory; and (Ref. Para. A19–A23)
  - (b) The nature, timing and extent of which are appropriate in the circumstances to provide audit evidence to meet the intended purpose of those audit procedures. (Ref. Para. A24–A33)

### Information Intended to Be Used as Audit Evidence

9. The auditor shall evaluate the relevance and reliability of information intended to be used as audit evidence. In making this evaluation, the auditor shall consider: (Ref. Para. A34–A47)
  - (a) The source of the information; and (Ref. Para. A48–A52)
  - (b) The attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose of the audit procedures. (Ref. Para. A53–A62)
10. If the auditor considers that the accuracy and completeness attributes are applicable in accordance with paragraph 9(b), the auditor shall obtain audit evidence about the accuracy and completeness of the information. (Ref: Para. A63–A65)

*Information Intended to be Used as Audit Evidence Prepared by a Management's Expert*

11. If information intended to be used as audit evidence has been prepared by a management's expert, as part of the auditor's evaluation in accordance with paragraph 9, the auditor shall: (Ref: Para. A66–A68)
- (a) Evaluate the competence, capabilities and objectivity of that expert; (Ref. Para. A69–A73)
  - (b) Obtain an understanding of the work performed by that expert; and (Ref. Para. A74–A75)
  - (c) Obtain an understanding about how the information prepared by that expert has been used by management in the preparation of the financial statements, including: (Ref: Para. A76–A78)
    - (i) How management has considered the appropriateness of the information prepared by that expert; and
    - (ii) Modifications made by management to the information prepared by that expert, and the reasons for such modifications.

*Doubts About the Relevance or Reliability of Information Intended to be Used as Audit Evidence*

12. If the auditor has doubts about the relevance or reliability of information intended to be used as audit evidence, the auditor shall: (Ref. Para. A79–A80)
- (a) Determine whether modifications or additions to audit procedures are necessary to resolve the doubts; and (Ref: Para. A81-A82)
  - (b) If the doubts cannot be resolved, consider the effect, if any, on other aspects of the audit, including whether such doubts indicate a risk of material misstatement due to fraud. (Ref: Para. A83)

**Evaluating the Audit Evidence Obtained**

13. As a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with ISA 330,<sup>6</sup> the auditor shall: (Ref. Para. A84–A88)
- (a) Evaluate whether the audit evidence obtained meets the intended purpose of the audit procedures; and
  - (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.
14. If the auditor obtains audit evidence that is inconsistent with other audit evidence, the auditor shall: (Ref. Para. A89-A93)
- (a) Determine what modifications or additions to audit procedures are necessary to understand and address the inconsistency; and
  - (b) Consider the effect, if any, on other aspects of the audit.

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<sup>6</sup> ISA 330, paragraph 26

## Application and Other Explanatory Material

### Audit Evidence and Audit Procedures (Ref: Para. 1)

- A1. Audit evidence is necessary to support the conclusions that form the basis for the auditor's opinion and report.<sup>7</sup> Audit evidence comprises evidence that supports and corroborates management's assertions and evidence that contradicts such assertions. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. Audit evidence obtained from previous audits may also provide audit evidence for the current audit, provided the auditor has performed audit procedures to evaluate whether the audit evidence from the previous audit remains relevant and reliable for the current audit.
- A2. The auditor obtains audit evidence by designing and performing audit procedures, including:
- Risk assessment procedures performed in accordance with ISA 315 (Revised 2019)<sup>8</sup> or other ISAs that expand on how ISA 315 (Revised 2019) applies to a specific topic;
  - Further audit procedures performed in accordance with ISA 330, or other ISAs that expand on how ISA 330 applies to a specific topic, which comprise:
    - Tests of controls, when required by the ISA or when the auditor has chosen to do so; and
    - Substantive procedures, including tests of details and substantive analytical procedures; or
  - Other audit procedures that are performed to comply with the ISAs.

The Appendix explains the relationship of proposed ISA 500 (Revised) to the other ISAs regarding the responsibilities of the auditor in obtaining audit evidence.

### *Automated Tools and Techniques*

- A3. The auditor may perform audit procedures manually or using automated tools and techniques, individually or in combination with each other, to obtain audit evidence. In some circumstances, due to the form of the underlying information, an automated tool and technique may be more effective or provide more persuasive audit evidence, or the auditor may need to use an automated tool and technique because it may not be possible or practicable to perform an audit procedure manually. For example, an automated tool and technique may be more effective in analyzing, processing, organizing, structuring or presenting large volumes of data or information.
- A4. Other ISAs may:
- Describe circumstances when an audit procedure may be performed more effectively by using an automated tool and technique than manually. For example, ISA 240 explains that the use of automated tools and techniques may enable more extensive testing of digital transactions or account files.<sup>9</sup>

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<sup>7</sup> ISA 200, paragraph A30

<sup>8</sup> ISA 315 (Revised 2019), paragraphs 13–16

<sup>9</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph A38

- Provide examples of the use of automated tools and techniques that may be relevant in applying this ISA. For example, ISA 315 (Revised 2019) explains that automated tools or techniques may also be used to:
  - Perform risk assessment procedures on large volumes of data, including for analysis, recalculations, reperformance or reconciliations.<sup>10</sup>
  - Observe or inspect, in particular assets, for example through the use of remote observation tools (e.g., a drone).<sup>11</sup>

#### **Sufficient Appropriate Audit Evidence (Ref: Para. 2)**

A5. The auditor considers all audit evidence obtained during the audit to provide a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with ISA 330.<sup>12</sup> As explained in ISA 330, the auditor's judgment as to what constitutes sufficient appropriate audit evidence is influenced by a number of factors, including the persuasiveness of the audit evidence.<sup>13</sup>

#### *Interrelationship of the Sufficiency, Appropriateness and Persuasiveness of Audit Evidence*

- A6. The sufficiency and appropriateness of audit evidence are interrelated.<sup>14</sup> Sufficiency and appropriateness together affect the persuasiveness of audit evidence, taking into account the assessed risks of material misstatement and relevant assertions.
- A7. Certain ISAs provide requirements, or guidance, about circumstances when more persuasive audit evidence is, or may be, required. For example, in designing further audit procedures, ISA 330 requires the auditor to obtain more persuasive audit evidence the higher the auditor's assessment of risk, and also requires the auditor to obtain more persuasive audit evidence the greater the reliance the auditor places on the operating effectiveness of a control.<sup>15</sup>
- A8. The results of audit procedures performed, including whether any instances of fraud or error were identified, may cause the auditor to determine that it is appropriate to revise the risk assessment in accordance with ISA 315 (Revised 2019).<sup>16</sup> A revision to the risk assessment may indicate that more persuasive audit evidence is needed to conclude whether sufficient appropriate audit evidence has been obtained.
- A9. Other factors that affect the sufficiency and appropriateness of audit evidence, and therefore its persuasiveness, include the following:
- The information intended to be used as audit evidence, including the auditor's consideration of the attributes of relevance and reliability of the information as explained in paragraphs A48–A49.
  - Whether the information is from a single source or may be needed from multiple sources.

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<sup>10</sup> ISA 315 (Revised 2019), paragraph A21

<sup>11</sup> ISA 315 (Revised 2019), paragraph A35

<sup>12</sup> ISA 330, paragraph 26

<sup>13</sup> ISA 330, paragraph A62

<sup>14</sup> ISA 200, paragraph A31

<sup>15</sup> ISA 330, paragraphs 7(b) and 9

<sup>16</sup> ISA 315 (Revised 2019), paragraph 37

- The design and performance of audit procedures, i.e., whether they are appropriate in the circumstances and have been appropriately applied (see paragraphs A20–A21).
- Whether there are inconsistencies between multiple pieces of audit evidence.

*Difficulty in Obtaining, or the Time or Cost to Obtain, Audit Evidence*

- A10. In explaining the inherent limitations of an audit, ISA 200<sup>17</sup> notes that the matter of difficulty, time or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive.
- A11. In some circumstances, there may be a high degree of difficulty, time or cost involved in accessing or understanding information intended to be used as audit evidence. However, the auditor may determine that there is no alternative information that would provide sufficient appropriate audit evidence and that it is therefore necessary to obtain such information despite the difficulty, time or cost involved.
- A12. In circumstances when the auditor determines that it is not practicable to obtain or understand the information intended to be used as audit evidence, the auditor may be unable to obtain sufficient appropriate audit evidence. In addition, management's unwillingness to respond to an inquiry or a request from the auditor (e.g., management's refusal to provide a requested representation) may be a limitation on the scope of the audit. ISA 705 (Revised)<sup>18</sup> explains other circumstances when the auditor's inability to obtain sufficient appropriate audit evidence may be a scope limitation. Under these circumstances, the auditor is required to express a qualified opinion or disclaim the opinion on the financial statements in accordance with ISA 705 (Revised).

**Appropriateness of Audit Evidence** (Ref: Para. 7(a))

- A13. The appropriateness of audit evidence refers to the quality of audit evidence. The quality of audit evidence depends on the relevance and reliability of the information intended to be used as audit evidence as well as the effectiveness of the design of the audit procedures and the auditor's application of those audit procedures, as explained in paragraphs A24–A26. Information that is more relevant and reliable ordinarily is of a higher quality and, therefore, may provide more persuasive audit evidence. If the audit evidence is more persuasive, the auditor may determine that the audit evidence is sufficient in providing support for the conclusions that form the basis for the auditor's opinion. Alternatively, when audit evidence is less persuasive, the auditor may determine that additional audit evidence is needed to provide support for the auditor's conclusions. However, increasing the quantity of audit evidence by performing the same type of audit procedures may not provide more persuasive audit evidence in all circumstances.

**Sufficiency of Audit Evidence** (Ref: Para. 7(d))

- A14. The quantity of audit evidence needed 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 by the quality of such audit evidence (the higher the quality, the less may be required). Additional audit evidence may be obtained by increasing the extent of audit procedures performed, performing

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<sup>17</sup> ISA 200, paragraph A50

<sup>18</sup> ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, paragraphs A8 and A9

different types of audit procedures, or by seeking audit evidence from different sources. Obtaining more audit evidence, however, may not compensate for its poor quality.

**Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence** (Ref: Para. 8)

*The Nature of Audit Procedures*

A15. As explained in paragraph A2, the auditor obtains audit evidence by designing and performing audit procedures, including risk assessment procedures, further audit procedures, and other audit procedures to comply with the ISAs. The nature of an audit procedure refers to its purpose and its type. For example, ISA 330 explains that the purpose of further audit procedures may be a test of controls or a substantive procedure.<sup>19</sup> As also explained in ISA 330, the nature of the audit procedures is of most importance in responding to the assessed risks.

A16. The auditor may design and perform one type of audit procedure, or a combination of different types of audit procedures when obtaining audit evidence about, for example, a class of transactions, account balance or disclosure. The Appendix describes some of the types of audit procedures and includes illustrative examples.

A17. The type of audit procedure may affect the audit evidence obtained for the auditor's purposes.

**Examples:**

- Inquiry of knowledgeable persons within or outside the entity ordinarily does not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level.
- Observation provides audit evidence about the performance of a procedure or control. However, observation is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the procedure or control is performed.
- When performing risk assessment procedures or further audit procedures, the auditor may use an automated tool to interrogate a large data set of transactions more easily. By doing so, the auditor may obtain a more granular or deeper understanding about the characteristics or composition of the transactions, which may result in more persuasive audit evidence.

A18. The auditor may design and perform an audit procedure that achieves more than one purpose. For example, ISA 315 (Revised 2019) explains that the auditor may perform substantive procedures or tests of controls in accordance with ISA 330 concurrently with risk assessment procedures, when it is efficient to do so.<sup>20</sup> For an audit procedure to achieve more than one purpose, the auditor complies with the requirements of the relevant ISAs. For example, when an audit procedure serves as both a risk assessment procedure and a further audit procedure concurrently, the auditor is required to comply with the requirements of ISA 315 (Revised 2019) and ISA 330, and any other relevant ISAs

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<sup>19</sup> ISA 330, paragraph A5

<sup>20</sup> ISA 315 (Revised 2019), paragraph A19

(e.g., a topic-specific ISA, such as ISA 540 (Revised))<sup>21</sup> that deal with the design and performance of such audit procedure.

*Designing and Performing Audit Procedures in a Manner That Is Not Biased* (Ref: Para. 8(a))

A19. ISA 220 (Revised)<sup>22</sup> explains that unconscious or conscious auditor biases may affect the engagement team's professional judgments in designing and performing audit procedures, and provides examples of biases that may impede the exercise of professional skepticism. An awareness of such biases when designing and performing audit procedures may help to mitigate impediments to the auditor's exercise of professional skepticism in critically assessing audit evidence and determining whether sufficient appropriate audit evidence has been obtained for the auditor's purposes. Such awareness may also enable the auditor to design and perform audit procedures that seek to avoid:

- Placing more weight on audit evidence that corroborates the assertions in the financial statements than audit evidence that contradicts or casts doubt on such assertions (confirmation bias).
- Using an initial piece of information or audit evidence as an anchor against which subsequent information or audit evidence is assessed (anchoring bias).
- Placing more weight on information that immediately comes to mind or uses information from sources that are more readily available or accessible (availability bias).
- Placing weight or undue reliance on output from automated systems or information in digital format without performing appropriate audit procedures (automation bias). Also see paragraphs A22-A23.

A20. Designing and performing audit procedures in an unbiased manner involves:

- For risk assessment procedures, doing so in a manner that is not biased toward obtaining audit evidence that may corroborate the existence of risks or the auditor's expectations about the risks of material misstatement, or toward excluding audit evidence that may contradict the existence of risks or the auditor's expectations.
- For further audit procedures and other audit procedures in accordance with the ISAs, doing so in a manner that is not biased toward obtaining audit evidence that may corroborate management's assertions or toward excluding audit evidence that may contradict such assertions.

A21. Designing and performing audit procedures to obtain audit evidence in an unbiased manner may involve obtaining information intended to be used as audit evidence from multiple sources within and outside the entity. The need to obtain information from multiple sources may be affected by how persuasive the audit evidence needs to be to provide sufficient appropriate audit evidence to support the conclusions that form the basis for the auditor's opinion.

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<sup>21</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>22</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph A35

## Automation Bias

- A22. Digital Information or information that has been generated by automated systems may give rise to a risk of automation bias, resulting in an overreliance on the relevance and reliability of such information. An awareness of automation bias when evaluating the relevance and reliability of information intended to be used as audit evidence may help the auditor to design and perform audit procedures in a manner that seeks to avoid such bias.
- A23. Paragraphs A3-A4 explain that the use of automated tools and techniques may be more effective or provide more persuasive audit evidence than performing audit procedures manually. However, the use of automated tools and techniques may also give rise to a risk of unconscious biases, including automation bias. Possible actions that the auditor may take to mitigate the risk of automation bias when using automated tools and techniques include:
- Explicitly alerting the engagement team to instances or situations when vulnerability to automation bias may be greater.
  - Emphasizing the importance of the involvement of more experienced members of the engagement team, or engagement team members with specialized skills and knowledge, when necessary, to:
    - Understand the data inputs and processing steps, including calculations and modifications to data, used in the automated tool or technique;
    - Design and perform audit procedures using the automated tool or technique; or
    - Interpret the results from applying the automated tool or technique.
  - Determining whether the auditor's firm permits the use of the automated tool and technique and whether the firm has determined that the automated tool and technique is appropriate for use.<sup>23</sup>

### *Audit Procedures that are Appropriate in the Circumstances (Ref: Para. 8(b))*

- A24. As explained in paragraph A9, the audit procedures designed and performed by the auditor may affect the persuasiveness of audit evidence obtained.

#### Examples:

- Inspection or external confirmation procedures may provide more persuasive audit evidence than inquiry.
- Audit procedures that are more extensive (e.g., a larger sample size for audit sampling purposes) may provide more persuasive audit evidence.

- A25. ISA 200<sup>24</sup> explains that detection risk is a function of:

- The effectiveness of an audit procedure; and
- The application of the audit procedure by the auditor.

<sup>23</sup> 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*, paragraphs 32(f) and A100 – A101

<sup>24</sup> ISA 200, paragraphs A44-A45

Audit procedures designed and performed by the auditor are appropriate in the circumstances when the nature, timing and extent of such procedures are designed to be effective in achieving the intended purpose of the audit procedures. An audit procedure may be designed to be effective in achieving a specific purpose, but if the performance or execution of the audit procedure (i.e., its application) is inappropriate, detection risk may not be reduced to an appropriately low level.

A26. ISA 220 (Revised) deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and the related responsibilities of the engagement partner. Such responsibilities address factors that may affect the application of audit procedures, such as whether:

- There was adequate planning;
- The audit procedures were performed by engagement team members with appropriate knowledge and experience to properly perform the procedures;
- The engagement team members appropriately exercised professional skepticism; and
- There was appropriate direction, supervision and review.

#### Selecting Items for Testing in Designing and Performing an Audit Procedure

A27. When the design and performance of an audit procedure includes selecting items for testing, the auditor may use various approaches to identify and select items for testing. Such approaches may involve:

- Selecting all items;
- Selecting specific items; and
- Audit sampling.

The application of any one or a combination of these approaches may be appropriate depending on the circumstances. The auditor may also use automated tools and techniques to identify and select items for testing.

A28. The appropriateness of an approach or technique in selecting items for testing depends on a number of factors, such as:

- The intended purpose of the audit procedure;
- How the audit procedure is designed;
- Whether the auditor is performing the audit procedure manually or using automated tools and techniques;
- The characteristics of the population being tested; and
- The persuasiveness of audit evidence that is needed in the circumstances.

#### Selecting all items

A29. The auditor may determine that it is possible to apply an audit procedure to the entire population of items. If the audit procedure has been designed appropriately, the application of the audit procedure to an entire population may result in more persuasive audit evidence. Applying an audit procedure to an entire population may be appropriate when, for example:

- The population constitutes a small number of large value items;
- There is a significant risk and other means of selecting items do not provide sufficient appropriate audit evidence; or
- Automated tools and techniques can be used to perform the audit procedure.

#### Selecting specific items

A30. The auditor may determine that it is appropriate to select specific items from a population. The judgmental selection of specific items is subject to non-sampling risk. Specific items selected may include:

- *High value items.* The auditor may decide to select specific items within a population because they are of high value.
- *All items over a certain amount.* The auditor may decide to select items whose recorded values exceed a certain amount so that the audit procedure is applied to a large proportion of the population.
- *Key items.* The auditor may decide to select specific items within a population based on other characteristics, for example, items that are suspicious, unusual, particularly risk-prone or that have a history of error.
- *Items to obtain information:* The auditor may examine items to obtain information about matters such as the nature of the entity or the nature of transactions.

A31. While selecting specific items from a population will often be an efficient means of obtaining audit evidence, it does not constitute audit sampling. The results of audit procedures applied to items selected in this way cannot be projected to the entire population; accordingly, selecting specific items from a population does not provide audit evidence concerning the remainder of the population.

A32. The auditor may use automated tools and techniques to identify and select specific items for testing. For example, ISA 315 (Revised 2019) explains that, when automated procedures are used to maintain the general ledger and prepare financial statements, non-standard journal entries may exist only in electronic form and may therefore be more easily identified through the use of automated techniques.<sup>25</sup>

#### Audit sampling

A33. Audit sampling involves the application of audit procedures to less than 100% of items within a population and is designed to enable reasonable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it. As explained in paragraph A31, selecting specific items from a population does not constitute audit sampling. Audit sampling is addressed in ISA 530.<sup>26</sup>

#### Information Intended to Be Used as Audit Evidence (Ref: Paras. 9–12)

A34. In planning and performing an audit, the auditor may obtain information from a variety of sources and in different forms. Such information ordinarily is expected to result in audit evidence to support the conclusions that form the basis for the auditor's opinion and report. However, such information can

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<sup>25</sup> ISA 315 (Revised 2019), paragraph A161

<sup>26</sup> ISA 530, *Audit Sampling*

become audit evidence only after audit procedures are applied to it, including evaluating its relevance and reliability. For purposes of this ISA, this information is referred to as “information intended to be used as audit evidence.”

*Evaluating the Relevance and Reliability of Information Intended to Be Used as Audit Evidence*

- A35. The auditor’s evaluation of the relevance and reliability of information intended to be used as audit evidence is an iterative process that involves professional judgment. Factors that affect the auditor’s evaluation include what information exists that may be used as audit evidence and in what form, and whether such information is available, accessible and understandable, as further described in paragraphs A41-A46.
- A36. Evaluating the relevance and reliability of information intended to be used as audit evidence involves performing audit procedures. The nature, timing and extent of such audit procedures may vary and are influenced by the auditor’s consideration of:
- The source of the information (see paragraphs A47-A51); and
  - The attributes of relevance and reliability of the information that are applicable in the circumstances (see paragraphs A52-A61).
- A37. The evaluation of relevance and reliability may be performed concurrently with the audit procedures applied to the information. For example, when the purpose of the audit procedure is to test the valuation of investments using pricing information from an external source, the auditor also considers the credibility of the source and whether it is free from bias. In some circumstances, the audit procedures to evaluate relevance and reliability may be straightforward (e.g., comparing the interest rate on a loan that is based on the prime rate established by a central bank of the jurisdiction to published information from the central bank). In other circumstances, audit procedures, including tests of controls, may be performed to evaluate the reliability of information (e.g., the accuracy and completeness of information generated internally from the entity’s information system).
- A38. Audit evidence from performing other audit procedures in accordance with the ISAs also may assist the auditor in evaluating the relevance and reliability of information intended to be used as audit evidence.

Examples:

Audit evidence obtained from:

- The auditor’s understanding of the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control obtained in accordance with ISA 315 (Revised 2019).
- Tests of controls over the preparation and maintenance of the information performed in accordance with ISA 330.
- Audit procedures performed when using of the work of an auditor’s expert in accordance with ISA 620.<sup>27</sup>

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<sup>27</sup> ISA 620, *Using the Work of an Auditor’s Expert*

- Audit procedures performed in accordance with ISA 402<sup>28</sup> when a user entity uses the services of one or more service organizations.

- A39. In evaluating the relevance and reliability of information intended to be used as audit evidence, the auditor may identify information that is inconsistent with the audit evidence on which the auditor originally based the identification or assessment of the risks of material misstatement. In these circumstances, ISA 315 (Revised 2019) requires the auditor to revise the identification or assessment of the risks of material misstatement.<sup>29</sup>
- A40. ISA 230<sup>30</sup> provides requirements and guidance about the form, content and extent of audit documentation that also apply to the documentation of the auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence. The documentation of audit procedures performed in accordance with other ISAs may include documentation about the auditor's consideration of attributes of relevance and reliability that are applicable in the circumstances (e.g., the credibility of a particular external information source used in auditing an accounting estimate in accordance with ISA 540 (Revised)). However, this ISA does not require the auditor to document the consideration of every attribute of relevance and reliability of information.

*Form, Availability, Accessibility and Understandability of Information*

- A41. Information intended to be used as audit evidence may come in different forms, including:
- Oral information, for example, obtained through a verbal response to an inquiry.
  - Visual information, for example, obtained through physical or remote observation.
  - Information in written form, for example, obtained through a written confirmation.
  - Digital information, which includes documents in digital form and data stored in an IT system. Such digital information may be manually captured, converted into a digital format, or electronically generated.
- A42. The form, availability, accessibility and understandability of the information intended to be used as audit evidence may affect the design and performance of the audit procedures in which the information will be used and may also affect the auditor's evaluation of the relevance and reliability of the information.

Examples:

- The design of an audit procedure to inspect the physical condition of the entity's inventories may differ based on whether the auditor plans to be physically present at specific locations or plans to obtain audit evidence through alternative means, such as remote observation techniques.
- Information may be available only at certain points or periods in time, or it may be destroyed after a specific period of time. The auditor may need to design and perform the audit procedures at particular points in time or request retention of some information to facilitate

<sup>28</sup> ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

<sup>29</sup> ISA 315 (Revised 2019), paragraph 37

<sup>30</sup> ISA 230, *Audit Documentation*

the performance of audit procedures. For example, the entity may use machine learning technology to predict the recoverability of accounts receivable, which is periodically updated (e.g., for changes in payment history, customer credit scores or economic factors). In this case, the auditor may need to perform the audit procedures close to the financial reporting date when the information generated is current, since performing audit procedures at an earlier or later date may render a different outcome.

- Information in digital form may be available to the auditor on a continuous basis. In such circumstances, the auditor may use automated tools and techniques that are designed to operate on a real time basis to test the information (e.g., information maintained in a distributed ledger).

- A43. Paragraphs A19–A23 explain auditor biases, such as availability bias, that may affect or impede the auditor’s exercise of professional skepticism when forming judgments about audit evidence. Remaining alert for information that may be more suitable for the auditor’s purposes, instead of information that immediately comes to mind or is readily available, may assist the auditor in mitigating the risk of availability bias.
- A44. The auditor may receive information in many forms, ranging from information generated from highly complex automated systems to information manually prepared by management and others within the entity. The auditor may have an expectation of the form in which information intended to be used as audit evidence will be received. Remaining alert for information that is received in a form different from the expected form may assist the auditor in mitigating unconscious biases that may impede the auditor’s exercise of professional skepticism. In addition, receiving information in a form different from that expected may also be relevant to the auditor’s evaluation of the reliability of that information.
- A45. Information intended to be used as audit evidence may exist, but access to such information may be restricted, for example, due to restrictions imposed by law or regulation or the source providing the information, or due to war, civil unrest or outbreaks of disease. In some cases, the auditor may be able to overcome restrictions on access to information. ISA 600 (Revised)<sup>31</sup> provides examples of how restrictions may be overcome for an audit of group financial statements.
- A46. Paragraph A12 explains that the auditor may be unable to obtain sufficient appropriate audit evidence if the auditor determines that it is not practicable to obtain or understand information intended to be used as audit evidence. For example, if the auditor does not have a sufficient basis to evaluate the relevance and reliability of information from an external information source, the auditor may have a limitation on scope if sufficient appropriate audit evidence cannot be obtained through alternative procedures. The auditor’s inability to obtain sufficient appropriate audit evidence requires the auditor to express a qualified opinion or disclaim an opinion on the financial statements in accordance with ISA 705 (Revised).
- A47. In some circumstances, specialized skills or knowledge may be needed to understand or interpret the information intended to be used as audit evidence. Accordingly, the auditor may consider using an auditor’s expert to assist in understanding or interpreting the information if the engagement team does not have the appropriate competence and capabilities to do so. Other resources may also be

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<sup>31</sup> ISA 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph A29

appropriate for such purposes, such as technological or intellectual resources that are available to the auditor, as explained in ISA 220 (Revised).<sup>32</sup>

**Examples:**

Information where specialized skills or knowledge may be needed to understand or interpret information intended to be used as audit evidence:

- The information may be highly dependent on the interpretation of local tax laws and regulations (e.g., a tax opinion on a structured transaction), and the auditor may need a local tax lawyer or tax accountant to help interpret the information.
- The information may be included in a contract that contains complicated and legal terminology, and the auditor may need a lawyer to help interpret the information.
- The information may have been generated by an IT application that uses a highly complex programming language. The auditor may use an IT programming expert to assist in understanding how the information is generated.
- The information may be in a foreign language and may need to be translated.

*Sources of Information* (Ref. Para. 9(a))

A48. Information intended to be used as audit evidence may come from internal sources or external sources. For example, information may come from:

- The entity's accounting records, management or other sources internal to the entity.
- An external individual or organization that provides information suitable for use by a broad range of users, which the entity uses in preparing the financial statements, or the auditor intends to use as audit evidence. Such sources are referred to as an "external information source" in this ISA. A particular set of information is more likely to be suitable for use by a broad range of users and less likely to be subject to influence by any particular user if the external individual or organization provides it to the public for free, or makes it available to a wide range of users in return for payment of a fee. The auditor's determination of whether the information is suitable for use by a broad range of users, and therefore if it is information from an external information source, is a matter of professional judgment, taking into account the ability of management to influence the external information source.

**Example:**

Pricing services, governmental organizations, central banks or recognized stock exchanges may provide information such as:

- Prices and pricing related data.
- Macro-economic data, such as historical and forecast unemployment rates and economic growth rates, or census data.
- Credit history data.

<sup>32</sup> ISA 220 (Revised), paragraphs A59–A69.

- Industry specific data, such as an index of reclamation costs for certain extractive industries, or viewership information or ratings used to determine advertising revenue in the entertainment industry.
- Mortality tables used to determine liabilities in the life insurance and pension sectors.

- Independent sources outside of the entity that provide information to the entity, such as the entity's bank, legal counsel, customers or suppliers.
- A management's expert.
- An auditor's expert.
- A service organization.

A49. In some cases, information prepared by an external individual or organization that is used by management in preparing the financial statements is an external information source because it is suitable for use by a broad range of users. In other cases, it is information prepared by a management's expert (see paragraphs A65–A77). An external individual or organization cannot, in respect of any particular set of information, be both an external information source and a management's expert.

A50. The source and form of the information intended to be used as audit evidence may affect the availability, accessibility and understandability of the information intended to be used as audit evidence. The source of the information may also affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances, and the nature and extent of the auditor's evaluation of the relevance and reliability of the information. It may also affect how the auditor responds to matters such as doubts about the reliability of the information, or inconsistencies in audit evidence.

Examples:

- If the source of the information is subject to the influence of management or a related party, the auditor may be concerned about authenticity or management bias in evaluating the reliability of such information.
- If the information comes from a highly reputable external information source, such as a central bank of the jurisdiction, the auditor's work effort in considering the reliability of the information may not be extensive.
- If the information is provided by management, such as information generated internally from the entity's information system, the auditor may need to obtain audit evidence about the accuracy and completeness of the information (see paragraphs A62-A63).

A51. Obtaining audit evidence in an unbiased manner may involve obtaining information from multiple sources. However, the auditor is not required to perform an exhaustive search to identify all possible sources of information to be used as audit evidence. The auditor's understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control

obtained in accordance with ISA 315 (Revised 2019) may assist the auditor in identifying appropriate sources of information.<sup>33</sup>

- A52. In designing and performing a specific audit procedure, the auditor may use information from a combination of sources.

**Example:**

In performing substantive analytical procedures to test revenue recorded for a real estate entity, the auditor may use information from:

- The entity's accounting records, such as information that relates to the details of the rental properties and their location; and
- An external information source, such as information that relates to average real estate rental prices for the area where the properties are located (e.g., information available on real estate websites).

*Attributes of Relevance and Reliability of Information (Ref: Para. 9(b))*

- A53. As explained in paragraph A13, the quality of audit evidence depends on the relevance and reliability of the information upon which it is based. Accordingly, the auditor is required to consider the attributes of relevance and reliability of the information that are applicable in the circumstances as part of the auditor's evaluation in accordance with paragraph 9. Whether, and the degree to which, certain attributes are applicable in the circumstances is a matter of professional judgment.

**Relevance**

- A54. The principal attribute of the relevance of information intended to be used as audit evidence deals with the logical connection with, or bearing upon, the purpose of the audit procedure, including, when appropriate, the assertion being tested. The degree to which the information relates to meeting the purpose of the audit procedure may also be a consideration.
- A55. Other factors that may affect the relevance of information intended to be used as audit evidence include:
- The classes of transactions, account balances or disclosures (including relevant assertions) to which the information relates. Information may be relevant to multiple classes of transactions, account balances or disclosures. Some information may be relevant for certain financial statement assertions but not others.

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<sup>33</sup> ISA 315 (Revised 2019), paragraphs 19–26

Examples:

- A summary of accounts receivable collected after the end of the period may be relevant to testing the existence and valuation of accounts receivable, and occurrence and accuracy of revenue, but not necessarily to the completeness of accounts receivable and revenue.
- Inspection of a document, such as a stock, bond or a digital copy of a mortgage, may be relevant to the existence assertion for a financial instrument but may not necessarily provide audit evidence about valuation.

- The period of time to which the information relates.
- The level of detail of the information needed given the intended purpose of the audit procedure.

Example:

Information used by management to monitor the entity's operations (e.g., interim operating results) may be relevant for purposes of risk assessment procedures. On the other hand, information related to key performance indicators used by management may not be precise enough to detect material misstatements at the assertion level and therefore may not be appropriate for use by the auditor in performing further audit procedure.

Reliability

A56. The reliability of information intended to be used as audit evidence deals with the degree to which the auditor may depend on such information.

<i>Attributes that may be considered by the auditor in considering the degree to which information intended to be used as audit evidence is reliable</i>	
Accuracy	The information is free from error in its reflection of the underlying conditions, events, circumstances, actions or inactions, including reflecting the appropriate time period or point in time attributable to the conditions or events.
Completeness	The information reflects all of the underlying conditions, events, circumstances, actions or inactions.
Authenticity	The source actually generated or provided the information, and was authorized to do so, and the information has not been inappropriately altered.
Bias	The information is free from intentional and unintentional bias in its reflection of the underlying conditions, events, circumstances, actions or inactions.
Credibility	The source has the competence and capability to generate the information to a required standard, and the source can be trusted.

- A57. When evaluating the reliability of information intended to be used as audit evidence in accordance with paragraph 9, the auditor may determine that the attribute of authenticity is applicable in the circumstances. ISA 200 explains that the auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary.<sup>34</sup> ISA 240 deals with circumstances in which the auditor has reason to believe that a document may not be authentic, or may have been modified without that modification having been disclosed to the auditor.<sup>35</sup>
- A58. The reliability of information, in particular the attributes of accuracy, completeness and authenticity, may also be affected by whether the integrity of the information has been maintained through all stages of information processing.

**Example:**

An entity's information system may include general information technology controls to safeguard and maintain the integrity of the financial information. Based on the auditor's understanding and evaluation of the entity's information system and control activities in accordance with the requirements of ISA 315 (Revised 2019),<sup>36</sup> the auditor may determine that the integrity of the entity's financial information has been maintained through all stages of information processing, including when information is extracted for financial reporting purposes.

*Factors That Affect the Auditor's Professional Judgment Regarding the Attributes of Relevance and Reliability*

- A59. The intended purpose of the audit procedure in which the information will be used affects the auditor's professional judgment about the attributes of relevance and reliability that are applicable in the circumstances.

**Examples:**

- When the auditor performs risk assessment procedures to understand the nature of the entity's provision for warranties, procedures such as the following may be sufficient to assess the risk of material misstatement:
  - Obtaining or updating the auditor's understanding of the entity and its environment, including the markets for the related products.
  - Determining that there have been no changes in the entity's internal control in this area from the prior period audit.
  - Inspecting a list of inventory returns during the guarantee period and noting that such returns are consistent with the auditor's expectations.
- When the auditor designs and performs further audit procedures that are responsive to the assessed risks of material misstatement of the valuation of the provision for warranties, the auditor's further audit procedures may include procedures to obtain audit evidence about the accuracy and the completeness of the listing of returned goods within the guarantee period.

<sup>34</sup> ISA 200, paragraph A23

<sup>35</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 14

<sup>36</sup> ISA 315 (Revised 2019), paragraphs 25-26

A60. Other factors that affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances may include:

- The nature and form of the information.
- The controls over the preparation and maintenance of the information.
- How the information has been obtained by the auditor, for example, whether the information was obtained directly or indirectly by the auditor.
- If the information is intended to be used by the auditor in performing further audit procedures, the nature of the assessed risks of material misstatement, including the reasons for the assessment, and the relevant assertions.
- Whether the information appears to corroborate or contradict management's assertions.

Example:

Responses to inquiries with those charged with governance about events or conditions that may cast significant doubt about the entity's ability to continue as a going concern may corroborate or contradict management's assertions about future strategies and business plans. In considering the responses to inquiries of those charged with governance:

- If the responses corroborate management's assertions, the attribute of bias may be more applicable in the circumstances.
- If the responses contradict management's assertions, the attributes of accuracy and completeness may be more applicable in the circumstances.

- The extent of change from prior audits, if applicable, in relation to the information, such as changes in how the information has been prepared and changes in underlying controls.
- The implications of actual, suspected, or alleged fraud identified during the audit.

A61. As explained in paragraph A22, digital information or information that has been generated by automated systems may give rise to a risk of automation bias by the auditor. Therefore, the auditor may need to consider this risk when evaluating the relevance and reliability of such information intended to be used as audit evidence.

A62. When the information intended to be used as audit evidence has been obtained by management from an external information source for use in preparing the financial statements, obtaining an understanding of why management used the source and how management considered the relevance and reliability of the information may help to inform the auditor's evaluation of the relevance and reliability of that information.

*Attributes of Accuracy and Completeness (Ref: Para. 10)*

A63. The source of the information intended to be used as audit evidence may affect the auditor's consideration of whether the attributes of accuracy and completeness are applicable in the circumstances. For example, accuracy and completeness ordinarily will be applicable for information generated internally from the entity's information system. For information obtained from a source

external to the entity, the auditor may be more focused on other attributes of reliability, including the credibility of the source providing the information.

- A64. As explained in paragraph A58, the intended purpose of the audit procedure affects the auditor's professional judgment about the attributes of relevance and reliability that are applicable in the circumstances. The attributes of accuracy and completeness ordinarily will be applicable for information generated internally from the entity's information system used in performing further audit procedures but may not always be applicable when performing risk assessment procedures.

Examples of circumstances in which the auditor may consider the attributes of accuracy and completeness to be applicable in the circumstances may include:

- The price and sales volume data produced by the entity intended to be used by the auditor to develop an expectation about revenue.
- A population of items being tested for a certain characteristic, such as authorization of payment.
- Testing the appropriateness of journal entries and other adjustments.

- A65. Paragraph A37 provides guidance about the audit procedures to evaluate the relevance and reliability of information intended to be used as audit evidence. Such guidance also applies to obtaining audit evidence about the accuracy and completeness attributes when applicable in the circumstances.

*Information Intended to be Used as Audit Evidence Prepared by a Management's Expert (Ref: Para. 11)*

- A66. Management may employ or engage experts in fields other than accounting (e.g., actuarial, valuation, engineering, or climate change and sustainability) to obtain information necessary to prepare the financial statements.
- A67. As explained in paragraph A48, in some cases information prepared by an external individual or organization that is used by management in preparing the financial statements is an external information source, and in other cases it is information prepared by a management's expert. Professional judgment may be needed in determining whether information intended to be used as audit evidence has been prepared by a management's expert, and therefore whether the requirement in paragraph 11 of this ISA applies.

Examples:

- An individual or organization may provide information about real estate prices that is suitable for use by a broad range of users and is therefore determined to be an external information source with respect to that information (e.g., information made generally available about a geographical region). The same individual or organization may also act as a management's expert in providing commissioned valuations for the entity's real estate portfolio specifically tailored for the entity's facts and circumstances.
- Some actuarial organizations publish mortality tables for general use that, when used by an entity, would generally be considered to be information from an external information source. The same actuarial organization may also be a management's expert for different information tailored to the specific circumstances of the entity to help management determine the pension liability for several of the entity's pension plans.

A68. The auditor's evaluation of the information prepared by a management's expert may assist the auditor in complying with other ISAs. For example, when information prepared by a management's expert is used by management for purposes of making an accounting estimate, the auditor's evaluation may assist the auditor in meeting the requirements of ISA 540 (Revised) regarding:

- The selection and application of the methods, significant assumptions and the data used by management in making the accounting estimate; and
- How management selected the point estimate and developed related disclosures about estimation uncertainty.

The Competence, Capabilities and Objectivity of the Management's Expert (Ref: Para. 11(a))

A69. When evaluating the relevance and reliability of information intended to be used as audit evidence, paragraph 9(b) requires the auditor to consider the attributes of relevance and reliability that are applicable in the circumstances. When such information is prepared by a management's expert:

- The competence and capabilities of that expert may inform the auditor's consideration of the attribute of credibility. The credibility of the source providing the information affects the degree to which information intended to be used as audit evidence is reliable.
- The objectivity of that expert may inform the auditor's consideration of the attribute of bias. Bias in the information intended to be used as audit evidence affects the degree to which information is reliable. In some cases, information prepared by a management's expert may be subject to bias, as management may have an influence on the professional judgments of the management's expert.

Competence and capabilities

A70. Competence relates to the nature and level of expertise of the management's expert. Factors that may affect whether the management's expert has the appropriate competence include:

- Whether the expert's work is subject to technical performance standards or other professional or industry requirements, for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation.
- The matter for which the management expert's work will be used, and whether they have the appropriate level of expertise applicable to the matter, including expertise in a particular area of specialty.

Examples:

- An actuary may specialize in health insurance but have limited expertise regarding pension calculations compared to a pension actuary.
  - An actuary that specializes in life insurance may have limited experience with property and casualty insurance.
- The management's expert's competence with respect to relevant accounting requirements, for example, knowledge of assumptions and methods, including models when applicable, that are consistent with the applicable financial reporting framework.

A71. Capabilities relates to the ability of the management's expert to exercise the competence in the circumstances. Factors that may influence capabilities may include geographic location, and the availability of time and resources.

#### Objectivity

A72. A broad range of circumstances may influence the professional judgments of the management's expert, which may threaten the management expert's objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats and intimidation threats. Interests and relationships creating threats may include:

- Financial interests.
- Business and personal relationships.
- Provision of other services.

Safeguards may reduce such threats and may be created either by external structures (e.g., the management's expert's profession, legislation or regulation), or by the management's expert's work environment (e.g., quality management policies or procedures).

A73. Although safeguards cannot eliminate all threats to a management's expert's objectivity, threats such as intimidation threats may be of less significance to a management's expert engaged by the entity than to a management's expert employed by the entity, and the effectiveness of safeguards such as quality management policies or procedures may be greater. The threat to objectivity created by being an employee of the entity will always be present, and therefore a management's expert employed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees of the entity.

#### Obtain an Understanding of the Work Performed by the Management's Expert (Ref: Para. 11(b))

A74. Matters relevant to the auditor's understanding of the work performed by the management's expert may include:

- The relevant field of expertise;
- The nature, scope and objectives of the management's expert's work;
- Whether there are professional or other standards, and regulatory or legal requirements that apply in preparing the information;
- How the information has been prepared by the management's expert, including:
  - The assumptions and methods used by the management's expert, and whether they are generally accepted within that expert's field and appropriate for financial reporting purposes; and
  - The underlying information used by the management's expert; and
- The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence.

A75. The auditor may decide to involve an auditor's expert<sup>37</sup> to assist in understanding the work performed, including the information prepared, by, the management's expert. For example, the auditor may not have sufficient knowledge or expertise in the management expert's field.

Obtain an Understanding of How the Information Prepared by the Management's Expert Has Been Used by Management in the Preparation of the Financial Statements (Ref: Para. 11(c))

A76. Understanding how management has considered the appropriateness of the information prepared by the management's expert may assist the auditor in evaluating the relevance and reliability of the information intended to be used as audit evidence.

Examples:

- If management has implemented controls to understand and evaluate significant assumptions made by the management's expert and test the data used by the management's expert, the auditor's procedures to evaluate the relevance and reliability of the information prepared by the management's expert may take into account the controls implemented by management.
- If management relies on the controls of the management's expert in preparing the information and accepts the information provided by the management's expert without further evaluation or consideration, the auditor's procedures to evaluate the relevance and reliability of the information prepared by the management's expert may be focused on the significant assumptions and data used by the management's expert.

A77. The auditor's understanding of how information prepared by a management's expert has been used by management in the preparation of the financial statements may help the auditor understand whether the expert's findings or conclusions have been appropriately reflected in the financial statements. In some circumstances, management may need to modify the information prepared by the management's expert, such as when the information provided is too general and requires adjustment to reflect the circumstances unique to the entity. Understanding the modifications made by management to the information prepared by the management's expert may assist the auditor in evaluating whether the information is relevant and reliable in accordance with paragraph 9. For example, management's adjustments may give rise to bias, or management may not have the appropriate competence and capabilities to adapt or adjust the information, which may cause the information to be inaccurate, incomplete or lack credibility.

A78. Based on the auditor's understanding of how information prepared by the management's expert has been used by management in the preparation of the financial statements, the auditor may identify a deficiency in internal control. ISA 265<sup>38</sup> deals with the auditor's responsibility to communicate deficiencies in internal control to those charged with governance and management.

*Doubts About the Relevance or Reliability of Information (Ref: Para. 12)*

A79. Paragraph A54 explains that the relevance of information intended to be used as audit evidence may be affected by the period of time to which the information relates. For example, the relevance of such

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<sup>37</sup> ISA 620, paragraph 7

<sup>38</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged With Governance*

information may change based on the passage of time or due to events or conditions, such as the identification of new information. Such circumstances may occur when the auditor identifies information from an alternative or more credible source which negates, or causes doubt about, the relevance of the initial information intended to be used as audit evidence.

A80. Factors or circumstances that may give rise to doubts about the reliability of information intended to be used as audit evidence include:

- An inability to evaluate the attributes that are applicable in the circumstances, such as whether the information is authentic.
- Misstatements identified during the audit.
- Deficiencies in internal control identified by the auditor, particularly when there is a significant deficiency in internal control.
- When audit procedures performed on a population result in a higher rate of deviation than expected.
- When information intended to be used as audit evidence is inconsistent with other information or audit evidence.

A81. The auditor may be able to perform audit procedures to resolve doubts about the relevance or reliability of information intended to be used as audit evidence. For example, if the auditor has doubts about the reliability of the response to a confirmation request, the auditor may be able to resolve such doubts by contacting the confirming party to verify the source and contents of the response.<sup>39</sup> In other circumstances, the auditor may need to seek alternative or additional information, which may include information from external sources.

A82. As explained in ISA 200,<sup>40</sup> in cases of doubt about the reliability of information or indications of possible fraud, the ISAs require the auditor to investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.

A83. ISA 580<sup>41</sup> provides requirements and guidance for 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 fraud. ISA 240 deals with the auditor's responsibilities relating to fraud in an audit of financial statements.

### **Evaluating the Audit Evidence Obtained (Ref: Para 13)**

A84. Audit evidence is obtained from designing and performing audit procedures. ISA 315 (Revised 2019) requires the auditor to evaluate whether the audit evidence obtained from risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement.<sup>42</sup> ISA 330 requires the auditor to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level, and to design and perform further audit procedures whose nature, timing and extent are based on and are responsive

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<sup>39</sup> ISA 505, *External Confirmations*, paragraph A14

<sup>40</sup> ISA 200, paragraph A23

<sup>41</sup> ISA 580, *Written Representations*, paragraphs 16-18

<sup>42</sup> ISA 315 (Revised 2019), paragraph 35

to the assessed risks of material misstatement at the assertion level.<sup>43</sup> As explained in ISA 315 (Revised 2019), risks of material misstatement at the financial statement level may also affect individual assertions, and identifying these financial statement level risks may assist the auditor in assessing risks of material misstatement at the assertion level, and in designing further audit procedures to address the identified risks.<sup>44</sup>

- A85. ISA 330 addresses the auditor's responsibility to conclude whether sufficient appropriate audit evidence has been obtained.<sup>45</sup> The auditor's judgment as to what constitutes sufficient appropriate audit evidence is influenced by, among other factors, the results of audit procedures performed.<sup>46</sup> As explained in paragraph A83, ISA 330 requires the nature, timing and extent of further audit procedures to be based on and responsive to the assessed risks of material misstatement at the assertion level. The auditor's evaluation required by paragraph 13(a) is made in the context of the requirements of ISA 330 and therefore is focused on whether the audit evidence obtained meets the intended purpose of the audit procedures performed for relevant assertions for significant classes of transactions, account balances and disclosures.
- A86. If the auditor has not obtained sufficient appropriate audit evidence related to a relevant assertion about a class of transactions, account balance or disclosure, ISA 330 requires the auditor to attempt to obtain further audit evidence.<sup>47</sup> This may be the case, for example, if the audit evidence obtained does not meet the intended purpose of the audit procedures. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor is required to express a qualified opinion or disclaim an opinion on the financial statements in accordance with ISA 705 (Revised).
- A87. Other ISAs may also address the auditor's evaluation of whether sufficient appropriate audit evidence has been obtained for specific topics, such as ISA 570 (Revised).<sup>48</sup>
- A88. As explained in paragraph A25, an audit procedure may be designed to be effective in achieving an intended purpose, but if the performance or execution of the audit procedure (i.e., its application) is inappropriate, detection risk may not be reduced to an appropriately low level. Paragraph A26 explains how ISA 220 (Revised) addresses the specific responsibilities of the auditor regarding quality management at the engagement level, and the related responsibilities of the engagement partner, which may affect the application of audit procedures. In addition, ISA 220 (Revised)<sup>49</sup> explains that the review of the engagement team's work consists of considering whether, for example:
- The evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion; and
  - The objectives of the audit procedures have been achieved.

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<sup>43</sup> ISA 330, paragraphs 5-6

<sup>44</sup> ISA 315 (Revised 2019), paragraph A194

<sup>45</sup> ISA 330, paragraph 26

<sup>46</sup> ISA 330, paragraph A62

<sup>47</sup> ISA 330, paragraph 27

<sup>48</sup> ISA 570 (Revised), *Going Concern*, paragraph 17

<sup>49</sup> ISA 220 (Revised), paragraph A89

*Inconsistencies in Audit Evidence (Ref: Para. 14)*

- A89. In some cases, the audit evidence obtained may corroborate the assertions in the financial statements (e.g., for a particular account balance), but when considered with other audit evidence, may indicate possible management bias.

**Example:**

There may be an indication of possible management bias when accounting estimates included in the financial statements are considered to be individually reasonable, but management's point estimates consistently trend toward one end of the auditor's range of reasonable outcomes that provide a more favorable financial reporting outcome for management.

- A90. When audit evidence is inconsistent with other audit evidence, it may indicate that some of the information used as audit evidence is not reliable. This may be the case, for example, when responses to inquiries of management, those charged with governance, internal auditors, or others are inconsistent. Such inconsistencies may therefore call into question the appropriateness of the auditor's evaluation of the relevance and reliability of such information, in accordance with paragraph 9. Paragraph 12 addresses the auditor's responsibilities when the auditor has doubts about the relevance and reliability of information intended to be used as audit evidence. The extent to which the auditor may need to modify or add to the audit procedures to resolve the doubts and the effect on other aspects of the audit may vary.
- A91. When performing an audit procedure, such as a risk assessment procedure or a further audit procedure, the auditor may identify items that are inconsistent with the auditor's expectations or that exhibit characteristics that are unusual for the population. Different terminology may be used to describe these items, for example, exceptions, outliers, notable items, or items of audit interest. These items may indicate a possible misstatement in the financial statements. They may also indicate inconsistencies in audit evidence, particularly when other audit evidence has not identified similar exceptions or outliers, or cast doubt on the reliability of the information. Paragraph 14 applies in such circumstances.
- A92. In considering the effect of inconsistencies in audit evidence on other aspects of the audit, the auditor may consider whether the risk assessment remains appropriate in accordance with ISA 315 (Revised 2019).<sup>50</sup>
- A93. ISA 230 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.<sup>51</sup>

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<sup>50</sup> ISA 315 (Revised 2019), paragraph 37

<sup>51</sup> ISA 230, paragraph 11

## Appendix

(Ref: Para. A2, A16–A17)

### The Relationship of Proposed ISA 500 (Revised) to the Other ISAs and Examples of Types of Audit Procedures

This appendix explains the relationship of proposed ISA 500 (Revised) to the other ISAs regarding the responsibilities of the auditor in obtaining audit evidence. The appendix also describes some of the types of audit procedures designed and performed by the auditor to obtain audit evidence. Some audit procedures described in this appendix are defined in the ISAs. This appendix is non-exhaustive; other types of procedures may be designed and performed by the auditor.

#### Responsibility to Design and Perform Audit Procedures

1. As explained in paragraph 3, this ISA is applicable to all audit evidence obtained during the audit. Other ISAs may address the audit evidence to be obtained for specific matters, for example:
  - ISA 315 (Revised 2019) deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements.
  - ISA 505<sup>52</sup> deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with ISA 330 and ISA 500.
  - ISA 520<sup>53</sup> deals with the auditor's use of analytical procedures as substantive procedures, and the auditor's responsibility to perform analytical procedures near the end of the audit;
  - ISA 570 (Revised) deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.

#### Types of Audit Procedures

##### *Inspection*

2. Inspection involves an examination (being physically present or using remote observation tools) of an asset or an examination of records or documents, whether internal or external, in paper form, digital form, or other media.

##### Examples:

- To test a control, the auditor may inspect records, using manual or automated tools and techniques, for evidence of authorization.
- The auditor may inspect the terms of revenue contracts with customers using automated tools or techniques, which may extract key information such as pricing and payment terms to use as audit evidence relevant to revenue recognition.

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<sup>52</sup> ISA 505, *External Confirmations*

<sup>53</sup> ISA 520, *Analytical Procedures*

3. Inspection of records and documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production. Some documents represent direct audit evidence of the existence of an asset, for example, a document constituting a financial instrument such as a stock or bond. Inspection of such documents may not necessarily provide audit evidence about ownership or value.
4. Inspection of tangible assets may provide reliable audit evidence with respect to their existence, but not necessarily about the entity's rights and obligations or the valuation of the assets. Inspection of individual inventory items may accompany the observation of inventory counting.

### Observation

5. Observation consists of looking at a process or procedure being performed by others. Similar to inspection, observation may involve being physically present or using remote observation tools. Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed. ISA 501 provides further guidance on observation of the counting of inventory.<sup>54</sup>

#### Examples:

- In understanding the entity's system of internal control as part of risk assessment procedures, the auditor may observe control activities of the entity, for example:
  - Physical controls, such as the safeguarding of assets;
  - Management's procedures to monitor or capture the actual time worked of wage employees; or
  - Management may use automated controls to monitor or observe inventory movements, for example, by assigning a unique bar code or quick response code to all inventory items.
- Subject to certain exceptions, ISA 501<sup>55</sup> requires the auditor to attend the physical inventory counting of the client to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. The auditor may perform the required audit procedures by using manual or automated techniques, individually or in combination with each other. Automated techniques may include live video, screensharing or video footage from a drone.
  - As a test of control, the auditor may observe entity personnel performing the controls.
  - As a further substantive procedure, the auditor may observe inventory counting by the entity's personnel through the use of satellite tracking devices.

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<sup>54</sup> ISA 501, *Audit Evidence—Specific Considerations for Selected Items*

<sup>55</sup> ISA 501, paragraph 4

### *Confirmation*

6. An external confirmation requested by the auditor is directed to a third party, who is requested to provide a direct response to the auditor on a particular matter. The third party's (the confirming party) response may be in paper form, or by digital or other media. See ISA 505 for further guidance.

#### *Examples:*

The auditor may request an external confirmation of:

- Bank accounts and bank facilities with the bank. In some cases, this may be facilitated through third-party web-based and automated platforms.
- Account balances, such as accounts receivable and accounts payable.
- The terms of agreements or transactions an entity has with third parties.
- Whether any modifications have been made to an agreement and, if so, what the relevant details are.
- Whether "side agreements" have been entered into that may influence revenue recognition.

### *Recalculation*

7. Recalculation consists of checking the mathematical accuracy of information.

### *Reperformance*

8. Repperformance involves the independent execution of procedures or controls that were originally performed as part of the entity's internal control.

#### *Examples:*

The auditor may:

- Develop an auditor's point estimate or range to evaluate management's point estimate and related disclosures about estimation uncertainty, in accordance with ISA 540 (Revised).
- Repperform the reconciliation of accounts payable balances at year end, through matching creditor's statements to the transactions in the underlying accounting records.

### *Analytical Procedures*

9. Analytical procedures consist of evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.
10. The auditor may perform analytical procedures for various purposes, including as:
- Risk assessment procedures in accordance with ISA 315 (Revised 2019);<sup>56</sup>

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<sup>56</sup> ISA 315 (Revised 2019), paragraph 14(b)

**Example:**

In identifying and assessing the risks of material misstatement regarding revenue, the auditor may perform analytical procedures in order to identify transactions that do not meet certain criteria, such as transactions with unauthorized customers, transactions without matching shipping documents or transactions with unusual delivery timeframes. Such transactions may be assessed as having a higher risk of material misstatement. As explained in paragraph A3, the auditor may perform audit procedures manually or use automated tools and techniques, individually or in combination with each other, to perform the analytical procedures.

- Substantive analytical procedures, or analytical procedures performed near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements. See ISA 520 for further guidance.

*Inquiry*

11. Inquiry consists of seeking information of knowledgeable persons within the entity or outside the entity. Inquiry is often used in performing risk assessment procedures and may range from formal written inquiries to informal oral inquiries. When performing further audit procedures, inquiry may provide audit evidence and may produce evidence of a misstatement. However, inquiry alone ordinarily does not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level, nor of the operating effectiveness of controls.
12. Evaluating responses to inquiries is an integral part of the inquiry process. Responses to inquiries may provide the auditor with new information, or with information that either corroborates or is inconsistent with other audit evidence. Responses to inquiries may provide a basis for the auditor to modify or perform additional audit procedures.
13. Although audit evidence obtained through inquiry may need to be supplemented by performing other audit procedures, when making inquiries about management intent, the information available to support management's intent may be limited. In these cases, understanding management's past history of carrying out its stated intentions, management's stated reasons for choosing a particular course of action, and management's ability to pursue a specific course of action may provide additional audit evidence to supplement the audit evidence obtained through inquiry.

**Examples:**

The auditor may inquire of management about their intent related to a particular matter. The auditor may corroborate management's intent through:

- Inspecting management's past history of carrying out its stated intentions;
- Understanding management's stated reasons for choosing a particular course of action, and inspecting information to corroborate such reasons; and
- Considering management's ability to pursue a specific course of action, based on the auditor's understanding of the entity, the matter to which management's intent relates and other audit evidence.

14. In respect of some matters, the auditor may consider it necessary to obtain written representations from management and, when appropriate, those charged with governance to confirm responses to oral inquiries. See ISA 580 for further guidance.

## CONFORMING AND CONSEQUENTIAL AMENDMENTS ARISING FROM PROPOSED ISA 500 (REVISED) – MARKED FROM EXTANT

### 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

#### Definitions

...

13(b). ~~Audit evidence—Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information. For purposes of the ISAs:~~

- ~~(i) Sufficiency of audit evidence is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence.~~
- ~~(ii) Appropriateness of audit evidence is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.~~

...

#### Application and Other Explanatory Material

...

##### Professional Skepticism (Ref: Para. 15)

A20. Professional skepticism includes being alert to, for example:

- Audit evidence that is inconsistent with ~~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 the ISAs.

...

A22. Professional skepticism is necessary to the critical assessment of audit evidence. This includes questioning inconsistent ~~contradictory~~ audit evidence and the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of audit evidence obtained in the light of the circumstances, for example, in the case where fraud risk factors exist and a single

document, of a nature that is susceptible to fraud, is the sole supporting evidence for a material financial statement amount.

- A23. The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. Nevertheless, the auditor is required to evaluate ~~consider~~ the reliability of information intended to be used as audit evidence.<sup>1</sup> In cases of doubt about the reliability of information or indications of possible fraud (for example, if conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document may have been falsified), the ISAs require that the auditor investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.<sup>2</sup>

...

### **Sufficient Appropriate Audit Evidence and Audit Risk (Ref: Para. 5 and 17)**

#### *Sufficiency and Appropriateness of Audit Evidence*

- A30. Audit evidence is necessary to support the conclusions drawn that form the basis for the auditor's opinion and report. Audit evidence ~~It~~ is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits audit evidence (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit<sup>3</sup>) or through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information intended to ~~that may~~ be used as audit evidence may have been prepared by an expert employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. ~~In addition, in some cases, the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.~~ Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.

...

- A32. The Appropriateness of audit evidence refers to is the measure of the quality of audit evidence. The quality of audit evidence depends on the; that is, its relevance and its reliability of the information intended to be used as audit evidence as well as the effectiveness of the design of the audit procedures and the auditor's application of those audit procedures.<sup>4</sup> ~~in providing support for the conclusions on which the auditor's opinion is based. The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained nature, form and source of information are among the factors that affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances.~~

...

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<sup>1</sup> ISA 500 (Revised), *Audit Evidence*, paragraphs 7-9

<sup>2</sup> ISA 240, paragraph 14; ISA 500 (Revised), paragraph 11; ISA 505, *External Confirmations*, paragraphs 10-11, and 16

<sup>3</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph 16

<sup>4</sup> ISA 500 (Revised), paragraph A13

# ISA 220 (REVISED) – QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS

## Application and Other Explanatory Material

...

### Definitions

*Engagement Team (Ref: Para. 12(d))*

A15. The engagement team may be organized in a variety of ways. For example, engagement team members may be located together or across different geographic locations and may be organized in groups by the activity they are performing. Regardless of how the engagement team is organized, any individual who performs audit procedures<sup>5</sup> on the audit engagement is a member of the engagement team.

A16. The definition of an engagement team focuses on individuals who perform audit procedures on the audit engagement. Audit evidence, which is necessary to support the auditor's opinion and report, is primarily obtained from audit procedures performed during the course of the audit.<sup>6</sup> Audit procedures include ~~comprise~~ risk assessment procedures,<sup>7</sup> and further audit procedures.<sup>8</sup> and other audit procedures that are performed to comply with the ISAs. As explained in ISA 500 (Revised) describes different types, of audit procedures, which may include inspection, observation, confirmation, recalculation, reperformance, analytical procedures and inquiry, often performed in some combination.<sup>9</sup> ~~Other ISAs may also include specific procedures to obtain audit evidence, for example, ISA 520.~~<sup>10</sup>

...

### Leadership Responsibilities for Managing and Achieving Quality on Audits (Ref: Para. 13–15)

...

*Professional Skepticism (Ref: Para. 7)*

...

A34. Impediments to the exercise of professional skepticism at the engagement level may include, but are not limited to:

- ....
- Difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others, which may cause the engagement team to bias the selection of sources of information

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<sup>5</sup> ISA 500 (Revised), *Audit Evidence*, paragraph A240

<sup>6</sup> ISA 200, paragraph A30

<sup>7</sup> ISA 315 (Revised 2019) provides requirements related to risk assessment procedures.

<sup>8</sup> ISA 330, *The Auditor's Responses to Assessed Risks*, provides requirements related to further audit procedures, including tests of controls and substantive procedures.

<sup>9</sup> ISA 500 (Revised), paragraphs A1614–A25, Appendix

<sup>10</sup> ISA 520, *Analytical Procedures*

intended to be used as audit evidence and seek information ~~audit evidence~~ from sources that are more easily accessible.

...

A36. Possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level may include:

- ...
- Communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others from whom information intended to be used as audit evidence may be sought.

## **ISA 240 – THE AUDITOR’S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS**

### **Requirements**

...

#### **Risk Assessment Procedures and Related Activities**

17. When performing risk assessment procedures and related activities to obtain an understanding of the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control, required by ISA 315 (Revised 2019), the auditor shall perform the procedures in paragraphs 18–25 to obtain audit evidence ~~information~~ for use in identifying the risks of material misstatement due to fraud.

...

#### *Evaluation of Fraud Risk Factors*

25. The auditor shall evaluate whether the audit evidence ~~information~~ obtained from the other risk assessment procedures and related activities performed indicates that one or more fraud risk factors are present. 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. (Ref: Para. A24–A28)

#### **Evaluation of Audit Evidence (Ref: Para. A50)**

...

37. If the auditor identifies a misstatement, whether material or not, and the auditor has reason to believe that it is or may be the result of fraud and that management (in particular, senior management) is involved, the auditor shall reevaluate the assessment of the risks of material misstatement due to fraud and its resulting impact on the nature, timing and extent of audit procedures to respond to the assessed risks. The auditor shall also consider whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering the reliability of audit evidence previously obtained. (Ref: Para. A53)

...

## **Communication to Management and with Those Charged with Governance**

41. If the auditor has identified a fraud or has obtained audit evidence information that indicates that a fraud may exist, 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 and detection of fraud of matters relevant to their responsibilities. (Ref: Para. A61-A62)

...

## **Application and Other Explanatory Material**

...

### **Risk Assessment Procedures and Related Activities**

...

*Inquiry of Management and Others within the Entity* (Ref: Para. 19)

...

- A18. 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 obtain audit evidence to corroborate responses to inquiries ~~with other information~~.

...

### **Responses to the Assessed Risks of Material Misstatement Due to Fraud**

...

*Audit Procedures Responsive to Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level* (Ref: Para. 31)

- A38. 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 appropriate reliable and relevant or to obtain additional audit evidence corroborative information. This may affect both the type of audit procedures to be performed and their combination. For example:
    - Physical observation or inspection of certain assets may become more important or the auditor may choose to use automated tools and computer-assisted audit techniques to gather more evidence about data contained in significant accounts or electronic transaction files.
    - The auditor may design procedures to obtain additional audit evidence 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 might 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 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. Also, automated tools and computer-assisted audit techniques may enable more extensive testing of electronic transactions and account files. Such techniques can be used to select sample transactions from key electronic files to sort transactions with specific characteristics, or to test an entire population instead of a sample.

...

#### **Evaluation of Audit Evidence** (Ref: Para. 35-38)

...

#### *Consideration of Identified Misstatements* (Ref: Para. 36–38)

...

A53. The implications of identified fraud depend on the circumstances. For example, an otherwise insignificant fraud may be significant if it involves senior management. In such circumstances, the reliability of audit 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.

...

## **Appendix 2**

(Ref: Para. A41)

### **Examples of Possible Audit Procedures to Address the Assessed Risks of Material Misstatement Due to Fraud**

...

#### **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:

- ...
- Performing audit procedures using automated computer-assisted tools and techniques, such as data mining to test for anomalies in a population.
- Testing the integrity of ~~computer-produced~~ records and transactions generated by automated systems.
- ...

### **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 Computer-assisted audit techniques may be useful in identifying unusual or unexpected revenue relationships or transactions.
- ...

#### *Inventory Quantities*

- ...
- Using automated tools and computer-assisted audit 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.

#### *Management Estimates*

- ...

### **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:

- ...
- Performing an automated computerized match of the vendor list with a list of employees to identify matches of addresses or phone numbers.
- Performing an automated computerized search of payroll records to identify duplicate addresses, employee identification or taxing authority numbers or bank accounts.

## Appendix 3

(Ref: Para. A50)

### Examples of Circumstances that Indicate the Possibility of Fraud

The following are examples of circumstances that may indicate the possibility that the financial statements may contain a material misstatement resulting from fraud.

...

*Problematic or unusual relationships between the auditor and management, including:*

- ...
- Unwillingness to facilitate auditor access to key electronic files for testing through the use of automated tools and computer-assisted audit techniques.

## ISA 300 – PLANNING AN AUDIT OF FINANCIAL STATEMENTS

### Application and Other Explanatory Material

...

## Appendix

(Ref: Para. 7–8, A8–A11)

### Considerations in Establishing the Overall Audit Strategy

This appendix provides examples of matters the auditor may consider in managing quality at the engagement level. Many of these matters will influence the auditor's overall audit strategy and detailed audit plan. The examples provided cover a broad range of matters applicable to many engagements. While some of the matters referred to below may be required by other ISAs, not all matters are relevant to every audit engagement and the list is not necessarily complete.

#### Characteristics of the Engagement

...

- The effect of information technology on the audit procedures, including the availability of data and the expected use of automated tools and computer-assisted audit techniques.

...

# ISA 315 (REVISED 2019) – IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

## Definitions

12. For purposes of the ISAs, the following terms have the meanings attributed below:

- (a) Accounting records -- The records of initial accounting entries and supporting records, such as payment records, including electronic fund transfers; invoices; contracts; the general and subsidiary ledgers, journal entries and other adjustments to the financial statements that are not reflected in journal entries; and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.

...

## Requirements

### Risk Assessment Procedures and Related Activities

...

#### *Evaluating the Audit Evidence Obtained from the Risk Assessment Procedures*

35. The auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement. If not, the auditor shall perform additional risk assessment 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 risk assessment procedures, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborative or contradictory to the assertions made by management. (Ref: Para. A230–A232)

## Application and Other Explanatory Material

### Risk Assessment Procedures and Related Activities (Ref: Para. 13-18)

...

#### *Sources of Audit Evidence (Ref: Para. 13)*

- A15. Designing and performing risk assessment procedures to obtain 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 audit evidence. In addition to information from other sources,<sup>11</sup> sources of information for risk assessment procedures may include:
- Interactions with management, those charged with governance, and other key entity personnel, such as internal auditors.

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<sup>11</sup> See paragraphs A37 and A38

- Certain external parties such as regulators, whether obtained directly or indirectly.
- Publicly available information about the entity, for example entity-issued press releases, materials for analysts or investor group meetings, analysts' reports or information about trading activity.

Regardless of the source of information, the auditor considers the relevance and reliability of the information intended to be used as audit evidence in accordance with ISA 500 (Revised).<sup>12</sup>

...

#### *Types of Risk Assessment Procedures* (Ref: Para. 14)

A19. ISA 500 (Revised)<sup>13</sup> explains the types of audit procedures that may be performed in obtaining audit evidence from risk assessment procedures and further audit procedures. The nature, timing and extent of the audit procedures may be affected by the fact that some of the accounting data and other evidence may only be available in digital electronic form or only at certain points in time.<sup>14</sup> The auditor may perform substantive procedures or tests of controls, in accordance with ISA 330, concurrently with risk assessment procedures, when it is efficient to do so. Audit evidence obtained that supports the identification and assessment of risks of material misstatement may also support the detection of misstatements at the assertion level or the evaluation of the operating effectiveness of controls.

...

#### **Identifying and Assessing the Risks of Material Misstatement** (Ref: Para. 28-37)

...

#### *Evaluating the Audit Evidence Obtained from the Risk Assessment Procedures* (Ref: Para. 35)

...

#### The Evaluation of the Audit evidence

A231. Audit evidence from risk assessment procedures comprises both evidence that may information that supports and corroborates, the management's assertions, made by management, or evidence and any information that may contradicts such assertions.<sup>15</sup>

...

#### **Documentation** (Ref: Para. 38)

...

A238. ISA 230 notes that, among other considerations, although there may be no single way in which the auditor's exercise of professional skepticism is documented, the audit documentation may nevertheless provide evidence of the auditor's exercise of professional skepticism.<sup>16</sup> For example, when the audit evidence obtained from risk assessment procedures includes evidence that both

<sup>12</sup> ISA 500 (Revised), paragraph 97

<sup>13</sup> ISA 500 (Revised), paragraph A1614-A17 and AppendixA21–A25

<sup>14</sup> ISA 500 (Revised), paragraph A4212

<sup>15</sup> ISA 500 (Revised), paragraph 8(a)A1

<sup>16</sup> ISA 230, paragraph A7

corroborates and contradicts the assertions made by management's assertions, the documentation may include how the auditor evaluated that evidence, including the professional judgments made in evaluating whether the audit evidence provides an appropriate basis for the auditor's identification and assessment of the risks of material misstatement. Examples of other requirements in this ISA for which documentation may provide evidence of the exercise of professional skepticism by the auditor include:

- ...
- Paragraph 35, which requires the auditor to take into account all audit evidence obtained from the risk assessment procedures, whether including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate corroborative or contradictory to the assertions made by management, and to evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement; and
- ...

## **ISA 330 – THE AUDITOR'S RESPONSES TO ASSESSED RISKS**

### **Requirements**

...

#### **Evaluating the Sufficiency and Appropriateness of Audit Evidence**

...

26. The auditor shall conclude whether sufficient appropriate audit evidence has been obtained. In forming an opinion, the auditor shall consider all ~~relevant~~ audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements. (Ref: Para. A62)

...

### **Application and Other Explanatory Material**

#### **Overall Responses (Ref: Para. 5)**

...

- A2. The assessment of the risks of material misstatement at the financial statement level, and thereby the auditor's overall responses, is affected by the auditor's understanding of the control environment. An effective control environment may allow the auditor to have more confidence in internal control and the reliability of information intended to be used as audit evidence generated internally within the entity and thus, for example, allow the auditor to conduct some audit procedures at an interim date rather than at the period end. Deficiencies in the control environment, however, have the opposite effect; for example, the auditor may respond to an ineffective control environment by:
- Conducting more audit procedures as of the period end rather than at an interim date.
  - ...

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

*The Nature, Timing and Extent of Further Audit Procedures (Ref: Para. 6)*

...

Responding to the Assessed Risks at the Assertion Level (Ref: Para. 7(a))

...

Extent

...

A16. The use of automated tools and computer-assisted audit techniques (CAATs) may enable more extensive testing of digital electronic transactions and account files, which may be useful when the auditor decides to modify the extent of testing, for example, in responding to the risks of material misstatement due to fraud. Such techniques can be used to select sample transactions from key digital electronic files, to sort transactions with specific characteristics, or to test an entire population instead of a sample.

...

Higher Assessments of Risk (Ref: Para 7(b))

A19. 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 appropriate relevant or reliable, for example, by placing more emphasis on obtaining third party evidence or by obtaining corroborating audit evidence from a number of independent sources.

*Tests of Controls*

Designing and Performing Tests of Controls (Ref: Para. 8)

...

Timing of Tests of Controls

...

Controls that have not changed from previous audits (Ref: Para. 14(b))

A39. When there are a number of controls for which the auditor intends to rely on audit evidence obtained in previous audits, testing some of those controls in each audit provides audit evidence corroborating information about the continuing effectiveness of the control environment. This contributes to the auditor's decision about whether it is appropriate to rely on audit evidence obtained in previous audits.

...

Evaluating the Operating Effectiveness of Controls (Ref: Para. 16–17)

...

## Nature and Extent of Substantive Procedures

...

- A45. The nature of the risk and assertion is relevant to the design of tests of details. For example, tests of details related to the existence or occurrence assertion may involve selecting from items contained in a financial statement amount and obtaining ~~the relevant~~ audit evidence. On the other hand, tests of details related to the completeness assertion may involve selecting from items that are expected to be included in the relevant financial statement amount and investigating whether they are included.

...

## Considering Whether External Confirmation Procedures Are to Be Performed (Ref: Para. 19)

- A48. 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. For example, a request may specifically seek confirmation that no “side agreement” exists that may be relevant to an entity’s revenue cutoff assertion. Other situations where external confirmation procedures may provide ~~relevant~~ audit evidence in responding to assessed risks of material misstatement include:

...

# ISA 402 – AUDIT CONSIDERATIONS RELATING TO AN ENTITY USING A SERVICE ORGANIZATION

## Application and Other Explanatory Material

...

## Responding to the Assessed Risks of Material Misstatement (Ref: Para. 15)

...

### *Tests of Controls* (Ref: Para. 16)

...

## Using a Type 2 Report as Audit Evidence that Controls at the Service Organization Are Operating Effectively (Ref: Para. 17)

...

- A32. For certain assertions, the shorter the period covered by a specific test and the longer the time elapsed since the performance of the test, the less relevant audit evidence the test may provide. In comparing the period covered by the type 2 report to the user entity’s financial reporting period, the user auditor may conclude that the type 2 report offers less relevant audit evidence if there is little overlap between the period covered by the type 2 report and the period for which the user auditor intends to rely on the report. When this is the case, a type 2 report covering a preceding or

subsequent period may provide additional audit evidence. In other cases, the user auditor may determine it is necessary to perform, or use another auditor to perform, tests of controls at the service organization in order to obtain sufficient appropriate audit evidence about the operating effectiveness of those controls.

...

## **ISA 501 – AUDIT EVIDENCE—SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS**

### **Application and Other Explanatory Material**

...

#### **Litigation and Claims**

*Completeness of Litigations and Claims* (Ref: Para. 9)

...

- A18. In addition to the procedures identified in paragraph 9, other relevant procedures include, for example, using audit evidence information obtained through risk assessment procedures carried out as part of obtaining an understanding of the entity and its environment to assist the auditor to become aware of litigation and claims involving the entity.

## **ISA 505 – EXTERNAL CONFIRMATIONS**

### **Introduction**

#### **Scope of this ISA**

1. This International Standard on Auditing (ISA) deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with the requirements of ISA 330<sup>17</sup> and ISA 500 (Revised).<sup>18</sup> It does not address inquiries regarding litigation and claims, which are dealt with in ISA 501.<sup>19</sup>

#### **External Confirmation Procedures to Obtain Audit Evidence**

2. ISA 500 (Revised) indicates that the reliability-appropriateness of audit evidence refers to the quality of audit evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained.<sup>20</sup> The quality of audit evidence depends on the relevance and reliability of the information intended to be used as audit evidence as well as the effectiveness

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<sup>17</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>18</sup> ISA 500 (Revised), *Audit Evidence*

<sup>19</sup> ISA 501, *Audit Evidence—Specific Considerations for Selected Items*

<sup>20</sup> ISA 500, paragraph A9

of the design of the audit procedures and the auditor's application of those audit procedures.<sup>21</sup> Depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more appropriate than evidence generated internally by the entity. That ISA also includes the following generalizations applicable to audit evidence:<sup>22</sup>

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

Accordingly, depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more reliable than evidence generated internally by the entity. This ISA is intended to assist the auditor in designing and performing external confirmation procedures to obtain relevant and reliable audit evidence.

3. Other ISAs recognize the importance of external confirmations as audit evidence, for example:
  - ...
  - ISA 240 indicates that the auditor may design confirmation requests to obtain audit evidence ~~additional corroborative information~~ as a response to address the assessed risks of material misstatement due to fraud at the assertion level.<sup>23</sup>
  - ISA 500 (Revised) indicates that corroborating information obtained from a source independent of the entity, such as external confirmations, may increase the assurance the auditor obtains from evidence existing within the accounting records or from representations made by management.<sup>24</sup>

...

## Requirements

...

### Evaluating the Results of the External Confirmation Procedures ~~Evidence Obtained~~

16. The auditor shall evaluate ~~whether~~ the results of the external confirmation procedures ~~provide relevant and reliable audit evidence, or~~ and determine whether further audit evidence is necessary. (Ref: Para A24–A25)

## Application and Other Explanatory Material

...

<sup>21</sup> ISA 500 (Revised), paragraph A13

<sup>22</sup> ISA 500, paragraph A5

<sup>23</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph A38

<sup>24</sup> ISA 500 (Revised), paragraphs A24A12–A13

## Results of the External Confirmation Procedures

*Reliability of Responses to Confirmation Requests (Ref: Para. 10)*

A11. ISA 500 (Revised) indicates that the source of information may affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances, and the nature and extent of the auditor's evaluation of the relevance and reliability of the information even when audit evidence is obtained from sources external to the entity, circumstances may exist that affect its reliability.<sup>25</sup> All responses carry some risk of interception, alteration or fraud. Such risk exists regardless of whether a response is obtained in paper form, or by electronic or other medium. Factors that may indicate doubts about the reliability of a response include that it:

- Was received by the auditor indirectly; or
- Appeared not to come from the originally intended confirming party.

...

A14. The auditor is required by ISA 500 (Revised) to determine whether to modify modifications or additions to audit procedures are necessary to resolve doubts over about the relevance or reliability of information intended to be used as audit evidence.<sup>26</sup> The auditor may choose to verify the source and contents of a response to a confirmation request by contacting the confirming party. For example, when a confirming party responds by electronic mail, the auditor may telephone the confirming party to determine whether the confirming party did, in fact, send the response. When a response has been returned to the auditor indirectly (for example, because the confirming party incorrectly addressed it to the entity rather than to the auditor), the auditor may request the confirming party to respond in writing directly to the auditor.

...

## Evaluating the Results of Individual External Confirmation Procedures ~~Evidence Obtained~~ (Ref: Para. 16)

A24. When evaluating the results of individual external confirmation requests, the auditor may categorize such results as follows:

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

...

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<sup>25</sup> ISA 500 (Revised), paragraph A5035

<sup>26</sup> ISA 500 (Revised), paragraph 1244

## ISA 520 – ANALYTICAL PROCEDURES

### Application and Other Explanatory Material

...

#### Substantive Analytical Procedures

...

##### *The Reliability of the Data* (Ref: Para. 5(b))

A12. The reliability of data is influenced by the auditor's consideration of its source and the attributes of reliability that are applicable in nature and is dependent on the circumstances under which it is obtained.<sup>27</sup> Accordingly, the following are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures:

- (a) Source of the information ~~available~~. For example, information may be less susceptible to management bias and more reliable when it is obtained from independent sources outside the entity;<sup>28</sup>
- (b) Comparability of the information ~~available~~. For example, broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialized products;
- (c) Nature and relevance of the information ~~available~~. For example, whether budgets have been established as results to be expected rather than as goals to be achieved; and
- (d) Controls over the preparation of the information that are designed to ensure its completeness, accuracy and validity. For example, controls over the preparation, review and maintenance of budgets.

A13. ISA 500 (Revised) establishes requirements and provides guidance for evaluating whether the information intended to be used as audit evidence is relevant and reliable.<sup>29</sup> The auditor may consider testing the operating effectiveness of controls, if any, over the entity's preparation of information used by the auditor in performing substantive analytical procedures in response to assessed risks. When such controls are effective, the auditor generally has greater confidence in the reliability of the information and, therefore, in the results of analytical procedures. The operating effectiveness of controls over non-financial information may often be tested in conjunction with other tests of controls. For example, in establishing controls over the processing of sales invoices, an entity may include controls over the recording of unit sales. In these circumstances, the auditor may test the operating effectiveness of controls over the recording of unit sales in conjunction with tests of the operating effectiveness of controls over the processing of sales invoices. Alternatively, the auditor may consider whether the information was subjected to audit procedures testing. ~~ISA 500 establishes requirements~~

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<sup>27</sup> ISA 500 (Revised), *Audit Evidence*, paragraph A50

<sup>28</sup> ISA 500, *Audit Evidence*, paragraph A35

<sup>29</sup> ISA 500 (Revised), paragraph 9

~~and provides guidance in determining the audit procedures to be performed on the information to be used as audit evidence to be used for substantive analytical procedures.~~<sup>30</sup>

...

#### *Evaluation Whether the Expectation Is Sufficiently Precise (Ref: Para. 5(c))*

A15. Matters relevant to the auditor's evaluation of whether the expectation can be developed sufficiently precisely to identify a misstatement that, when aggregated with other misstatements, may cause the financial statements to be materially misstated, include:

...

- The availability of ~~the~~ information, both financial and non-financial. For example, the auditor may consider whether financial information, such as budgets or forecasts, and non-financial information, such as the number of units produced or sold, is available to design substantive analytical procedures. If the information is available, the auditor is required to evaluate ~~may also consider~~ the reliability of the information as discussed in paragraphs A12–A13 above.

## **ISA 530 – AUDIT SAMPLING**

### **Introduction**

#### **Scope of this ISA**

...

2. This ISA complements ISA 500 (Revised),<sup>31</sup> which deals with the auditor's responsibility to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. ISA 500 (Revised) provides guidance on the means available to the auditor for selecting items for testing, of which audit sampling is one means.

### **Application and Other Explanatory Material**

...

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

##### *Sample Design (Ref: Para. 6)*

...

- A5. When designing an audit sample, the auditor's consideration includes the specific purpose to be achieved and the combination of audit procedures that is likely to best achieve that purpose. Consideration of the nature of the audit evidence sought and 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. In fulfilling the

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<sup>30</sup> ISA 500, paragraph 10

<sup>31</sup> ISA 500 (Revised), *Audit Evidence*

requirements of paragraphs 9 and 10 of ISA 500 (Revised), when performing audit sampling, the auditor performs audit procedures to obtain evidence that the population from which the audit sample is drawn is complete.

...

## Appendix 4

(Ref: Para. A13)

### Sample Selection Methods

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

...

(e) Block selection ...

The application of any one or a combination of the methods in paragraphs (a) to (e) may be appropriate depending on the circumstances. The auditor may also use automated tools and techniques to identify and select items for testing.

## ISA 540 (REVISED) – AUDITING ACCOUNTING ESTIMATES AND RELATED DISCLOSURES

### Introduction

#### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to accounting estimates and related disclosures in an audit of financial *statements*. Specifically, it includes requirements and guidance that refer to, or expand on, how ISA 315 (Revised 2019),<sup>32</sup> ISA 330,<sup>33</sup> ISA 450,<sup>34</sup> ISA 500 (Revised)<sup>35</sup> and other relevant ISAs are to be applied in relation to accounting estimates and related disclosures. It also includes requirements and guidance on the evaluation of misstatements of accounting estimates and related disclosures, and indicators of possible management bias.

...

### Requirements

...

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<sup>32</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>33</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>34</sup> ISA 450, *Evaluation of Misstatements Identified during the Audit*

<sup>35</sup> ISA 500 (Revised), *Audit Evidence*

## Responses to the Assessed Risks of Material Misstatement

...

### *Other Considerations Relating to Audit Evidence*

30. In obtaining audit evidence regarding the risks of material misstatement relating to accounting estimates, irrespective of the sources of information to be used as audit evidence, the auditor shall comply with the relevant requirements in ISA 500 (Revised).

When using the work of a management's expert, the requirements in paragraphs 21–29 of this ISA may assist the auditor in evaluating ~~the appropriateness of the expert's work as audit evidence for a relevant assertion~~ in accordance with paragraph 8(c) 11 of ISA 500 (Revised). ~~In evaluating the work of the management's expert, the nature, timing and extent of the further audit procedures are affected by the auditor's evaluation of the expert's competence, capabilities and objectivity, the auditor's understanding of the nature of the work performed by the expert, and the auditor's familiarity with the expert's field of expertise.~~ (Ref: Para. A126–A132)

...

## Overall Evaluation Based on Audit Procedures Performed

33. In applying ISA 330 to accounting estimates,<sup>36</sup> the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether: (Ref: Para A137–A138)
- (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;
  - (b) Management's decisions relating to the recognition, measurement, presentation and disclosure of these accounting estimates in the financial statements are in accordance with the applicable financial reporting framework; and
  - (c) Sufficient appropriate audit evidence has been obtained.
34. In making the evaluation required by paragraph 33(c), the auditor shall take into account all ~~relevant~~ audit evidence obtained, ~~whether~~ 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.<sup>37</sup> If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall evaluate the implications for the audit or the auditor's opinion on the financial statements in accordance with ISA 705 (Revised).<sup>38</sup>

...

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<sup>36</sup> ISA 330, paragraphs 25–26

<sup>37</sup> ISA 500 (Revised), paragraph 13~~44~~

<sup>38</sup> ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

## Application and Other Explanatory Material

...

### Responses to the Assessed Risks of Material Misstatement

*The Auditor's Further Audit Procedures* (Ref: Para. 18)

...

Obtaining Relevant Audit Evidence Whether Corroborative or Contradictory

A82. Audit evidence comprises evidence ~~both information~~ that supports and corroborates management's assertions, and evidence ~~any information~~ that contradicts such assertions.<sup>39</sup> 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 audit evidence.

...

*Testing How Management Made the Accounting Estimate* (Ref. Para. 22)

...

Significant Assumptions (Ref: Para. 24)

...

Relevance and reliability of the data (Ref: Para. 25(c))

A107. ~~When using information produced by the entity, ISA 500 (Revised) requires the auditor to evaluate the relevance and reliability of whether the information intended to be used as audit evidence is sufficiently relevant and reliable for the auditor's purposes, taking into consideration the source of the information and the attributes of relevance and reliability that are applicable in the circumstances. If the auditor considers that including as necessary in the circumstances, to obtain audit evidence about the accuracy and completeness attributes are applicable in the circumstances, ISA 500 (Revised) also requires the auditor to obtain audit evidence about the accuracy and completeness of the information and evaluating whether the information is sufficiently precise and detailed for the auditor's purposes.~~<sup>40</sup>

...

*Other Considerations Relating to Audit Evidence* (Ref: Para. 30)

A126. Information intended to be used as audit evidence, regarding risks of material misstatement relating to accounting estimates, may have been produced by the entity, prepared using the work of a management's expert, or provided by an external information source.

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<sup>39</sup> ISA 500 (Revised), paragraph A15

<sup>40</sup> ISA 500 (Revised), paragraphs 9-10

## External Information Sources

A127. As explained in ISA 500 (Revised),<sup>41</sup> the source of the information intended to be used as audit evidence may affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances, and the nature and extent of the auditor's evaluation of the relevance and reliability of the information ~~the reliability of information from an external information source is influenced by its source, its nature, and the circumstances under which it is obtained. Consequently, the nature and extent of the auditor's further audit procedures to consider the reliability of the information used in making an accounting estimate may vary depending on the nature of these factors.~~ For example:

- ...
- When information obtained from an external information source has been developed by that source using its own model(s). ~~Paragraph A43 of ISA 500 provides relevant guidance.~~

...

A129. When information intended to be used as audit evidence is from an external information source ~~is used as audit evidence~~, a relevant consideration for the auditor may be whether information can be obtained, or whether the information is sufficiently detailed, to understand the methods, assumptions and other data used by the external information source. This may be limited in some respects and consequently influence the auditor's consideration of the nature, timing and extent of procedures to perform. For example, pricing services often provide information about their methods and assumptions by asset class rather than individual securities. Brokers often provide only limited information about their inputs and assumptions when providing broker indicative quotes for individual securities. Paragraph ~~A44~~A46 of ISA 500 (Revised) provides guidance ~~with respect to restrictions placed by the~~ for circumstances in which the auditor may not have a sufficient basis to evaluate the relevance and reliability of information from an external information source ~~on the provision of supporting information.~~

## Management's Expert

...

A131. If the work of a management's expert involves the use of methods or sources of data relating to accounting estimates, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in the financial statements, the requirements in paragraphs 21–29 of this ISA may assist the auditor in applying paragraph 118(e) of ISA 500 (Revised).

...

## Documentation (Ref: Para. 39)

...

A152. Paragraph A7 of ISA 230 notes that, although there may be no single way in which the auditor's exercise of professional skepticism is documented, the audit documentation may nevertheless provide evidence of the auditor's exercise of professional skepticism. For example, in relation to

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<sup>41</sup> ISA 500 (Revised), Paragraph A5035

accounting estimates, when the audit evidence obtained includes evidence that both corroborates and contradicts management's assertions, the documentation may include how the auditor evaluated that evidence, including the professional judgments made in forming a conclusion as to whether sufficient the sufficiency and appropriateness of the audit evidence has been obtained. Examples of other requirements in this ISA for which documentation may provide evidence of the exercise of professional skepticism by the auditor include:

...

- Paragraph 18, which requires further audit procedures to be designed and performed to obtain sufficient appropriate evidence in a manner that is not biased toward obtaining audit evidence that may ~~be corroborative~~ corroborate, or towards excluding audit evidence that may ~~be contradictory~~, assertions made by management;

...

- Paragraph 34, which addresses the auditor's consideration of all ~~relevant~~ audit evidence obtained, whether including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborative or contradictory the assertions in the financial statements.

## ISA 550 – RELATED PARTIES

### Application and Other Explanatory Material

...

#### **Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions (Ref: Para. 20)**

...

*Assertions That Related Party Transactions Were Conducted on Terms Equivalent to Those Prevailing in an Arm's Length Transaction (Ref: Para. 24)*

...

A44. Evaluating management's support for this assertion may involve one or more of the following:

- Considering the appropriateness of management's process for supporting the assertion.
- Verifying the source of the internal or external data supporting the assertion, and evaluating the relevance and reliability of the data, including obtaining audit evidence about its testing the data to determine their accuracy, and completeness and relevance.
- Evaluating the reasonableness of any significant assumptions on which the assertion is based.

## ISA 570 (REVISED) – GOING CONCERN

...

### Requirements

...

#### Additional Audit Procedures When Events or Conditions Are Identified

16. 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 related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include: (Ref: Para. A16)

...

- (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: (Ref: Para. A18–A19)
- (i) Evaluating the relevance and reliability of the underlying data generated to prepare the forecast; and
  - (ii) Determining whether there is adequate support for the assumptions underlying the forecast.

## ISA 580 – WRITTEN REPRESENTATIONS

### Introduction

...

#### Written Representations as Audit Evidence

3. Audit evidence is ~~the information, to which audit procedures have been applied, that the auditor uses used by the auditor~~ in arriving at the conclusions that form the basis for on which the auditor's opinion and report is based.<sup>42</sup> Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements. Accordingly, similar to responses to inquiries, written representations are audit evidence. (Ref: Para. A1)

...

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<sup>42</sup> ISA 500 (Revised), *Audit Evidence*, paragraph 7(b)(e)

# ISA 610 (REVISED 2013) – USING THE WORK OF INTERNAL AUDITORS

## Introduction

...

### Relationship between ISA 315 (Revised 2019) and ISA 610 (Revised 2013)

...

10. There may be individuals in an entity that perform procedures similar to those performed by an internal audit function. However, unless performed by an objective and competent function that applies a systematic and disciplined approach, including quality control, such procedures would be considered internal controls and obtaining audit evidence regarding the effectiveness of such controls would be part of the auditor's responses to assessed risks in accordance with ISA 330.<sup>43</sup>

...

## Requirements

...

### Using Internal Auditors to Provide Direct Assistance

33. ...
34. The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with ISA 220 (Revised).<sup>44</sup> In so doing:
  - (a) The nature, timing and extent of direction, supervision, and review shall recognize that the internal auditors are not independent of the entity and be responsive to the outcome of the evaluation of the factors in paragraph 29 of this ISA; and
  - (b) The review procedures shall include the external auditor checking back to the underlying information ~~audit evidence~~ for some of the work performed by the internal auditors.

The direction, supervision and review by the external auditor of the work performed by the internal auditors shall be sufficient in order for the external auditor to determine that the internal auditors have obtained sufficient appropriate audit evidence to support the conclusions based on that work. (Ref: Para. A40–A41)

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<sup>43</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>44</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

## ISA 620 – USING THE WORK OF AN AUDITOR’S EXPERT

### Introduction

#### Scope of this ISA

...

2. This ISA does not deal with:

- (a) Situations where the engagement team includes a member, or consults an individual or organization, with expertise in a specialized area of accounting or auditing, which are dealt with in ISA 220 (Revised);<sup>45</sup> or
- (b) The auditor’s use of the work of an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements (a management’s expert), which is dealt with in ISA 500 (Revised).<sup>46</sup>

...

### Application and Other Explanatory Material

...

#### Determining the Need for an Auditor’s Expert (Ref: Para. 7)

...

- A8. In other cases, however, the auditor may determine that it is necessary, or may choose, to use an auditor’s expert to assist in obtaining sufficient appropriate audit evidence. Considerations when deciding whether to use an auditor’s expert may include:
- Whether management has used a management’s expert in preparing the financial statements (see paragraph A9).
  - The nature and significance of the matter, including its complexity.
  - The risks of material misstatement in the matter.
  - The expected nature of procedures to respond to identified risks, including: the auditor’s knowledge of and experience with the work of experts in relation to such matters; and the availability of alternative sources of information intended to be used as audit evidence.
- A9. When management has used a management’s expert in preparing the financial statements, the auditor’s decision on whether to use an auditor’s expert may also be influenced by such factors as:
- The nature, scope and objectives of the management’s expert’s work.
  - Whether the management’s expert is employed by the entity, or is a party engaged by it to provide relevant services.

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<sup>45</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph A19

<sup>46</sup> ISA 500 (Revised), *Audit Evidence*, paragraphs A66–A78A45–A59

- The extent to which management can exercise control or influence over the work of the management's expert.
- The management's expert's competence and capabilities.
- Whether the management's expert is subject to technical performance standards or other professional or industry requirements
- Any controls within the entity over the management's expert's work.

ISA 500 (Revised)<sup>47</sup> includes requirements and guidance regarding the evaluation effect of the competence, capabilities and objectivity of a management's experts ~~on~~ as part of the auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence.

...

## **ISA 701 – COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT**

### **Application and Other Explanatory Material**

...

#### **Determining Key Audit Matters** (Ref: Para. 9–10)

...

*Considerations in Determining Those Matters that Required Significant Auditor Attention* (Ref: Para. 9)

A16. The auditor may develop a preliminary view at the planning stage about matters that are likely to be areas of significant auditor attention in the audit and therefore may be key audit matters. The auditor may communicate this with those charged with governance when discussing the planned scope and timing of the audit in accordance with ISA 260 (Revised). However, the auditor's determination of key audit matters is based on the results of the audit procedures performed and ~~or~~ audit evidence obtained throughout the audit.

## **ISA 805 (REVISED) SPECIAL CONSIDERATIONS—AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT**

...

### **Application and Other Explanatory Material**

...

#### **Considerations When Accepting the Engagement**

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<sup>47</sup> ISA 500 (Revised), paragraph 118

*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 obtained ~~acquired~~ in an audit of the entity's complete set of financial statements. Accordingly, the auditor may need ~~further to obtain audit evidence to supplement the information obtained 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) 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.

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