



ISO/TC 207/SC 7 "Greenhouse gas and climate change management and related activities"

Secretariat: **SCC**

Committee manager: **Geraghty Christine Mrs**



N873 - ISO/TC 207/SC 7 Proposed response to IAF request for clarification of intent

Document type	Related content	Document date	Expected action
Meeting / Working documents for discussion	Meeting: Paris (France) 12 Oct 2022	2022-10-16	COMMENT/REPLY by 2022-10-18



Chair: *Ms. Sara Jane Snook*
Secretariat: *Standards Council of Canada*
Committee Manager: *Mrs. Christine Geraghty*

To: Members of ISO/TC 207/SC 7

Subject: ISO/TC 207/SC 7 Proposed response to IAF request for clarification of intent

Dear Members,

Please find attached a clarification request received from the International Accreditation Forum (IAF) and a proposed response. The proposed response was provided by an ad hoc group appointed by ISO/TC 207/SC 7 Chair Sara Jane Snook. Members of the ad hoc group were Christine Schuh of Canada, John Shideler of the United States, and Graeme Drake of Australia.

The proposed clarification of intent will be discussed as an item of new business during the closing session of the 2022 ISO/TC 207/SC 7 plenary meetings in Paris, France, on Tuesday, October 18th, 2022. The attached document includes the request itself submitted on a form developed by ISO/CASCO as well as the response proposed by the ad hoc group members.

Sincerely,

Mrs. Christine Geraghty
Committee Manager, ISO/TC207/SC7 – Greenhouse gas and climate change management and related activities
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Encl.



CLARIFICATION REQUEST FORM

Date of submission: 15/08/2022

1. Requesting ISO Member or A liaison member: International Accreditation Forum (IAF)
2. Contact person: Kevin Belson
3. Position: IAF Technical Committee Chair
4. Email address: Kevin.Belson@ukas.com
Applicable clauses: ISO 14065:2020 General principles and requirements for bodies validating and verifying environmental information. <ol style="list-style-type: none">1. ISO 14065 Definitions. 3.3.16 Environmental information validation. “process for evaluating the reasonableness of the assumptions, limitations, and methods that support an environmental information statement about the outcome of future activities.”2. ISO 14065 Definitions. 3.3.18. level of assurance. “degree of confidence in the environmental information statement. Note 1 to entry: Assurance is provided on historical information.3. ISO 14065:2020, clause 9.7.1.8, “An opinion providing assurance to intended users shall be based upon the verification of sufficient and appropriate historical evidence.” <i>Comment: This leads the reader to draw the conclusion that assurance would not be offered on a validation since the validation is based on future assumptions.</i>4. ISO 14065:2020, clause 9.7.1.9, “At the conclusion of an engagement to validate statements about the outcome of future activities, the <i>validation body shall issue an opinion</i>, unless it has disclaimed the issuance of an opinion. A validation opinion on the reasonableness of the assumptions, limitations and methods used to forecast information shall be based upon the evaluation of sufficient and appropriate information.” <i>Comment: The omission of the term “assurance” here can be read and interpreted to mean that validation cannot result in assurance.</i>5. Annex B (informative). Reference to validated/verified statements and use of marks. Table B.1 – Acceptable references for validated or verified environmental information statements. <i>Comment: This table describes the subject matter for both reasonable level of assurance and limited level of assurance as “historical in nature”. It then describes “validated” as “projected or forecast” but does not mention level of assurance.</i> ISO 14064-3:2019, which is a normative reference of ISO 14065:2020 includes the following references: <ol style="list-style-type: none">1. Introduction, section 0.2 Approach to this document. “The data and information that are subject to verification are historical in nature.”2. Definitions. 3.6.5. level of assurance. “degree of confidence in the GHG statement. Note 1 to entry: Assurance is provided on historical information.”3. Definitions. 3.6.6. reasonable assurance. “level of assurance where the nature and extent of the verification activities have been designed to provide a high but not absolute level of assurance on historical data and information.”

4. Definitions. 3.6.7. limited assurance. “level of assurance where the nature and extent of the verification activities have been designed to provide a reduced level of assurance on historical data and information.”

6. Clarification request, please formulate the request clearly and where possible in a format that enables a YES or NO answer:

The language of ISO 14065 and ISO 14064-3 as referenced above are unclear as to whether or not assurance can be offered in validation. In previous versions of the standards a level of assurance was applied commonly by GHG programs. Because of this change in language and because the language is not clear in prohibiting assurance in validation, there is a risk that this may lead to the standard’s inconsistent interpretation and application globally.

Question:

Can a validation provide assurance under ISO 14065:2020 and ISO 14064-3:2019?

If yes, would limited level of assurance be applicable?

If yes, would reasonable level of assurance be applicable?

The definition of level of assurance is different in ISO/IEC 17029 than in ISO 14065. Is this intentional?

7. Consensus position of the maintenance group (This section is only to be completed by the maintenance group members)

ISO TC207/SC7/WG6 developed ISO 14064-3 in both its first edition and its second edition drawing on standards of financial accounting for the methodology of providing assurance to intended users. Since the elaboration of the first edition, ISAE 3000 has provided a major underpinning for the WG’s understanding of assurance and the processes by which it is achieved. These concepts informed the writing of ISO 14065 (all editions).

ISAE 3000, a document cited in the bibliographies of ISO 14064-3:2019 and ISO 14065:2020, is the source for information on the writing of opinions that provide assurance to intended users. Of note is the fact that the models provided do not use the term “assurance” in the “Opinion” paragraph. Instead, assurance is assumed to be provided even though the word does not appear in the sentences that convey it. An example of an opinion issued at the reasonable level of assurance may be phrased as follows (see page 710 of ISAE 3000’s 2014 edition):

“In our opinion, the financial statements present fairly, in all material respects, *(or give a true and fair view of)* the financial position of ABC Company as of December 31, 20X1, and *(of)* its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.” [NOTE: alternate language in italics was included in the quoted material.]

ISAE 3400, the Examination of prospective financial information provided key theoretical concepts for validation of forecast and prospective greenhouse gas (GHG) information. It is the source for the language used in ISO 14064-3:2019 and ISO 14065:2020 to express a validation opinion. ISAE 3400 was listed in the bibliography of ISO 14064-3:2019. ISO 14065:2020 clause 9.7.2 makes clear that opinions may be issued at the conclusion of both verification engagements and validation engagements. Examples of validation opinions are provided in ISO 14064-3:2019 in Annex D.2, where informative language suggests the following wording: “Based on our examination of the evidence, nothing comes to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the forecast. Further, in

our opinion, the forecast is properly prepared on the basis of the assumptions and in accordance with XYZ's climate change regulations." This wording may be compared to that provided in ISAE 3400 (paragraph 28):

"Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the forecast. Further, in our opinion the forecast is properly prepared on the basis of the assumptions and is presented in accordance with"

ISO 14064-3:2019 recognizes the special limitations on assurance with respect to events that will occur in the future. This explains the statement which appears in clause 9.3 that "Where the GHG statement includes a forecast of future emission reductions/removals, the GHG opinion shall explain that actual results may differ from the forecast as the estimate is based on assumptions that may change in the future." This requirement, mirrored in ISO 14065:2020 (9.7.2), was rephrased as follows: "Where the environmental information statement includes future predictions, an explanation that the actual result can differ from the estimate because the assumptions upon which the estimate is based can change." ISAE 3400 (paragraph 28) expresses this concept as follows: "Actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation may be material." The formulation of ISAE 3400 was included as an example in the informative text of ISO 14064-3 D.2 using the identical words "Actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation may be material."

The maintenance group concludes the following from this examination of the language written in ISO 14064-3:2019 and repeated in part in ISO 14065:2020:

1. Validations result in the issuance (or the disclaiming) of an opinion just as verifications do (see ISO 14065:2020, 9.7.2).
2. A validation opinion may be unmodified, modified, or adverse (see ISO 14065:2020, 9.7.1.6).
3. The validation opinion is limited to providing assurance on "the reasonableness of the assumptions, limitations and methods used to forecast information," and is "based upon the evaluation of sufficient and appropriate information" (see ISO 14065:2020, 9.7.1.9).
4. A validation opinion should be issued using the negative format, thus conferring only limited assurance.
5. There is no substantive difference in the definition of "level of assurance" between ISO/IEC 17029 and ISO 14065. ISO 14065 substitutes the phrase "environmental information statement" for "claim" because the word "claim" is not used conventionally with respect to statements made about environmental information, including greenhouse gas statements. The terminology used in ISO 14065 is consistent with that used in ISO 14064-3:2019.

With respect to point 3 above, the maintenance group clarifies that assurance does not extend to the forecast or projected information itself, since both ISO 14064-3:2019 and ISO 14065:2020 require the inclusion of a phrase in the opinion using words to the effect that "actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation may be material."

With respect to point 4 above, the maintenance group recognizes that ISO 14064-3:2019 clause 7 does not restrict the issuance of a validation opinion to one expressing limited assurance. The maintenance group observes that the examples given in Annex D.2 and D.3 both employ the limited assurance format, and that ISAE 3400 states that a report on examination of prospective financial information includes "A

statement of negative assurance as to whether the assumptions provide a reasonable basis for the prospective financial information.” (Paragraph 27 g.)

For clarity, the maintenance group wishes to emphasize that the following points should be understood by bodies validating environmental information statements that include projected or forecast information:

- a) All validation opinions shall clearly state that assurance is provided only on the reasonable basis for the “assumptions, limitations and methods” used to project or forecast information, and not on the content of the projections or forecasts.
- b) The validation opinion shall be expressed only at the limited level of assurance.
- c) All validation opinions shall include the warning that “Actual results are likely to be different from the [forecast] [projection]* since anticipated events frequently do not occur as expected and the variation may be material.” (Note: this requirement is already stated in ISO 14064-3:2019 and ISO 14065:2020, though with slight variations in wording.)

* Use the word appropriate for the validation. ISAE 3400 defines these terms in paragraphs 4 and 5.

- d) Statements to be validated shall include, at a minimum:
 - a summary of the assumptions used by the responsible party as the basis for the projected or forecast information (see opinion conclusions on the validation of GHG statement information in D.2).
 - reference to applicable criteria (see opinion conclusions on the validation of GHG statement information in D.2).
- e) Validators should consider the informative text in ISO 14064-3:2019 Annex D which states: “Validation is applied when the emissions, removals and/or storage will occur in the future, and the validator can obtain sufficient evidence that the emissions, removals and/or storage are likely to occur, and the design of the data management systems, including the controls, are likely to be effective” (D.1).
- f) ISO 14064-3:2019 Annexes D.2 and D.3 provide examples of the appropriate wording of validation opinions. The limited assurance format used in D.3 is stated as follows:

“Based on our examination of the evidence, nothing comes to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the forecast. Further, in our opinion, the forecast is properly prepared on the basis of the assumptions and in accordance with XYZ’s climate change regulations.

“Actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation may be material.”

To be completed by maintenance group members only

Date request sent to maintenance panel	2022-09-14	
Is the clarification request formatted in an acceptable manner?	Yes ✓	
	no	
Is it clearly and unambiguously worded?	Yes ✓	

	no	
Do you have a conflict in participating in this request if so please specify.	yes	
	No ✓	

NZ SAE 1 Assurance Engagements over Greenhouse Gas Emissions Disclosures

Deleted: on Parts of Climate Statements Relating to

Scope

1. This standard deals with the assurance practitioner’s responsibilities when conducting an assurance engagement for the parts of the climate statements relating to greenhouse gas emissions (GHG) required by the Financial Markets Conduct Act 2013 (the Act) to be the subject of an assurance engagement.
2. This standard does not set requirements, or provide guidance, for assurance engagements over the whole, or other parts, of the climate statements, (Ref: Para. A1)

Deleted: Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021

Moved down [1]: The Act does not prevent the assurance engagement from covering the whole, or other parts of the climate statements.

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Definitions

3. For the purposes of this standard, the following terms have the meaning attributed below:
 - (a) Assurance client: Climate reporting entity as defined in the Financial Markets Conduct Act 2013.
 - (b) Assurance organisation: An organisation performing a GHG assurance engagement. An assurance organisation can be a sole assurance practitioner, partnership, company or other entity of assurance practitioners, or public sector equivalent.
 - (c) Assurance practitioner: The competent and independent individual performing the assurance engagement.
 - (d) Engagement leader: The assurance practitioner who takes overall responsibility for the assurance engagement, including the assurance report.
 - (e) Emphasis of matter: A paragraph in the assurance report that refers to disclosures in the climate statements, that in the assurance practitioner's judgement, are fundamental to users understanding of the information.
 - (f) GHG disclosures: The disclosure of an entity’s GHG emissions as required by Aotearoa New Zealand Climate Standards (NZ CSs) which are subject to mandatory assurance.
 - (g) Key Matter: A matter which, in the assurance practitioner’s professional judgement, was of most significance in the assurance engagement in the current period, is relevant to user’s understanding of the assurance engagement and enhances the communicative value of the assurance report. (Ref: Para. A2-A4)
 - (h) Other Matter: A paragraph in the assurance report that refers to matters not disclosed in the climate statements relevant to users understanding of the assurance practitioner's responsibilities or the assurance report.
 - (i) System of quality management: A system to support the assurance organisation and demonstrate that:
 - (i) The assurance organisation and its personnel fulfil their responsibilities and conduct the assurance engagement in accordance with applicable standards and legal and regulatory requirements; and
 - (ii) Assurance reports issued are appropriate in the circumstances.

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Effective Date

- 4. This standard is effective for assurance engagements from 27 October 2024 to periods ending on, or before, <TBC>.

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Objectives

- 5. The objectives of the assurance practitioner are:
 - (a) To obtain assurance about whether the GHG disclosures are free from material misstatement;
 - (b) To report their findings in an assurance report; and
 - (c) To communicate as otherwise required by this NZ SAE.

Requirements

Applicable Assurance Standards

- 6. When conducting the assurance engagement required by the Financial Markets Conduct Act 2013, the assurance practitioner:
 - (a) Shall comply with either ISO 14064-3:2019 Greenhouse gases —Part 3: Specification with guidance for the verification and validation of greenhouse gas statements or ISAE (NZ) 3410 Assurance Engagements on Greenhouse Gas Statements. (Ref: Para. A5)
 - (b) Is not required to comply with PES 1¹ but shall comply with the ethical and independence requirements set out in paragraphs 7 to 17.
 - (c) Is not required to comply with PES 3² but shall comply with the quality management requirements set out in paragraphs 42 to 51.
 - (d) Is not required to comply with PES 4³ but shall comply with the independent reviewer requirements set out in paragraph 52 to 56.

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Ethical Requirements

Fundamental Principles

- 7. Assurance organisations and assurance practitioners shall comply with each of the following fundamental principles:
 - (a) Independence – freedom from conditions or relationships which would compromise integrity or objectivity. (Ref: Para. A6)
 - (b) Integrity – to be straight forward and honest; complying with the spirit as well as the letter of applicable principles.
 - (c) Objectivity – to be impartial, to be free from bias, conflict of interest or influence from others.
 - (d) Professional Competence and Due Care – to:

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¹ PES 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))
² PES 3, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements
³ PES 4, Engagement Quality Reviews

Agenda item 3.6

- (i) Attain and maintain knowledge and skills necessary to perform the GHG assurance engagement; ~~and~~
- (ii) Act diligently and in accordance with applicable standards, laws and regulations.
- (e) Confidentiality – to respect the confidentiality of information acquired as a result of undertaking the assurance engagement.
- (f) Professional Behaviour – to:
 - (i) Comply with relevant laws and regulations;
 - (ii) Behave in a manner consistent with the responsibility to act in the public interest; and
 - (iii) Avoid any conduct that the assurance practitioner knows, or should know, might discredit GHG assurance practitioners.
- 8. Assurance organisations and assurance practitioners shall identify, evaluate and address threats to compliance with the fundamental principles. (Ref: Para. ~~A7~~)
- 9. All threats to the fundamental principles shall be eliminated or reduced to an acceptable level. (Ref: Para. ~~A8-A9~~)

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Documentation

10. An assurance practitioner shall document conclusions regarding compliance with the fundamental principles including:
- (a) The substance of any relevant discussions that support those conclusions;
 - (b) The nature of the threat and the safeguards applied; and
 - (c) When a threat required significant analysis and the assurance practitioner concluded that the threat was already at an acceptable level, the nature of the threat and the rationale for the conclusion.

Independence Requirements

Conditions and Relationships

11. The assurance organisation and the assurance practitioner shall remain free from conditions and relationships that a reasonable and informed third party would conclude compromised their independence. (Ref: Para. ~~A10~~)

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Self-review Threat Prohibition

12. The assurance organisation and the assurance practitioner shall not:
- (a) Prepare the GHG information and then assure the GHG disclosures;
 - (b) Assure their own work; or
 - (c) Provide any other services to the assurance client that might possibly create a self-review threat in relation to the GHG disclosures on which the assurance practitioner will express an assurance conclusion. (Ref: Para. ~~A11-A13~~)

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Prohibition on Assuming Management Responsibilities

13. The assurance organisation and the assurance practitioner shall not assume a management responsibility for an assurance client. (Ref: Para. ~~A14-A15~~)

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Financial Interest Prohibition

- 14. A direct financial interest or a material indirect financial interest in the assurance client shall not be held by:
 - (a) The assurance organisation;
 - (b) An assurance practitioner; or
 - (c) An assurance practitioner’s immediate family member. (Ref: Para. ~~A16- A19~~)
- 15. A direct financial interest or a material indirect financial interest in an entity that has a controlling interest in the assurance client shall not be held by:
 - (a) The assurance organisation;
 - (b) An assurance practitioner; or
 - (c) An assurance practitioner’s immediate family member where the assurance client is material to the entity. (Ref: Para. ~~A16- A19~~)

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Addressing Familiarity Threat due to Long Association

- 16. The assurance organisation, the engagement leader, the independent reviewer and senior personnel on the assurance team shall address familiarity threats that arise due to an individual’s long association with an assurance client.

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Independence Period

- 17. Independence shall be maintained during both:
 - (a) The engagement period; and
 - (b) The reporting period covered by the GHG disclosures.

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Competence

- 18. An engagement leader shall have sufficient competence in assurance skills and techniques and sufficient competence in the measurement and reporting of GHG emissions to accept responsibility for the assurance conclusion. (Ref: Para. ~~A20 – A23~~)
- 19. An engagement leader shall be satisfied that the assurance team collectively has the appropriate competence and capabilities, including in the measurement and reporting of GHG emissions and in undertaking assurance engagements, to provide assurance on the GHG disclosures. (Ref: Para. ~~A20-A23~~)

Moved up [3]: Documentation¶

An assurance practitioner shall document conclusions regarding compliance with the fundamental principles including:¶
 The substance of any relevant discussions that support those conclusions;¶
 The nature of the threat and the safeguards applied; and¶
 When a threat required significant analysis and the assurance practitioner concluded that the threat was already at an acceptable level, the nature of the threat and the rationale for the conclusion.¶

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Reliance on the Work of Others

- 20. When an assurance practitioner intends to rely on the work of an expert that is not part of the assurance team, the assurance practitioner shall:
 - (a) Evaluate the competence, capabilities and objectivity of that expert;
 - (b) Obtain an understanding of the work of that expert; and
 - (c) Evaluate the appropriateness of using that expert’s work as evidence.
- 21. Evaluation of the expert’s objectivity shall include enquiry regarding interests and relationships that may create a threat to that expert’s objectivity. This evaluation should be documented. (Ref: Para. ~~A25~~)

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Engagement Team Considerations

22. The engagement team shall consider the risk of management bias in relation to the GHG disclosures. This consideration shall be documented and updated throughout the engagement if new information comes to light. The consideration shall cover the ability to quantify scope 1, 2 and 3 emissions, potential non-compliance with any relevant laws and regulations and the susceptibility of the GHG disclosures to material misstatement whether due to fraud or error.

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Comparative Information

23. The assurance practitioner shall evaluate whether:

- (a) The comparative information agrees with the disclosures presented in the prior period or, when appropriate, has been properly restated, if required by NZ CSs, and that restatement has been adequately disclosed; and
- (b) The GHG methods and assumptions 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.

24. The assurance practitioner shall include an Other Matter paragraph in the assurance report identifying which GHG disclosure comparatives have not been subject to assurance, when appropriate.

25. If the assurance practitioner becomes aware that there may be a material misstatement in the comparative information presented, the assurance practitioner shall:

- (a) Discuss the matter with the assurance client and perform procedures appropriate in the circumstances; and
- (b) If the comparative information presented contains a material misstatement, and the comparative information has not been restated, the assurance practitioner shall include an Other Matter paragraph in the assurance report describing the circumstances affecting this information.

- Deleted: the comparative
- Deleted: Independent assurance report ¶
Identifying information subject to assurance¶

Other Information

26. The assurance practitioner shall read other information included in documents containing the GHG disclosures to identify material inconsistencies, if any, with the GHG disclosures or the assurance report. If the assurance practitioner:

- (a) Identifies a material inconsistency between the other information and the GHG disclosures or the assurance report; or
- (a) Becomes aware of a material misstatement of fact in the other information that is unrelated to matters appearing in the GHG statement or the assurance report

the assurance practitioner shall discuss the matter with the assurance client and take further action as appropriate.

Independent Assurance Report

Identifying Information Subject to Assurance

27. When the assurance engagement covers the whole climate statements or other disclosures in addition to the GHG disclosures, the assurance report shall separately identify the parts of the climate statements relating to GHG disclosures, as required by the Act.

28. The assurance report shall clearly identify the information that is excluded from the assurance engagement, together with a statement that the assurance practitioner has not performed any procedures with respect to the excluded information and, therefore, that no conclusion is expressed ~~on it.~~

Form and Level of the Conclusion

29. The first section of the independent assurance report shall include the assurance practitioner’s conclusion ~~unless the applicable standards require otherwise.~~ (Ref: Para. A26 – A27)
30. When some GHG disclosures are subject to reasonable assurance and others are subject to limited assurance, the assurance report shall clearly identify the GHG disclosures that are subject to each level of assurance, ~~and the related conclusion.~~

Key Matters

31. ~~If the assurance practitioner identified key matters during the assurance engagement, a Key Matters section shall be included in the assurance report if in the assurance practitioner’s professional judgement such reporting will enhance the communicate value of the assurance report.~~ (Ref: Para. A2 - A4)
32. The Key Matter ~~section~~ shall:
- (a) ~~Be included under a separate heading “Key Matters”~~
 - (b) State that key matters are those matters that in the assurance practitioner’s professional judgement, were most significant in undertaking the assurance engagement over GHG disclosures.
 - (c) Include an explanation of why the matter is a key matter; and
 - (d) Outline what the assurance practitioner has done to address the matter.
33. The assurance practitioner shall consider whether to include findings for the key matters identified. ~~The description of the findings shall not imply that a separate conclusion on the individual key matter was reached.~~

Emphasis of Matter

34. If the assurance practitioner considers it necessary to draw intended users’ attention to a matter in the GHG disclosures that is not reported as a key matter but that, in the assurance practitioner’s judgement, is of such importance that it is fundamental to the intended users’ understanding of the GHG disclosures, the assurance practitioner shall include an Emphasis of Matter paragraph in the assurance report.
35. The Emphasis of Matter paragraph/s shall:
- (a) Be included in a separate section of the report under the heading “Emphasis of Matter”;
 - (b) Clearly refer to the disclosure being emphasised and where the disclosures can be found. The paragraph shall refer only to information presented in the climate statements;
 - (c) Indicate that the assurance conclusion is not modified in respect of the matter emphasised.

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“Opinion” when all GHG disclosures are subject to reasonable assurance.¶

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Unmodified conclusions and opinions¶
The assurance practitioner shall express an unmodified conclusion or opinion when the assurance practitioner concludes:¶
In the case of limited assurance that, based on the procedures performed and evidence obtained, no matter has come to the assurance practitioner’s attention to cause the assurance practitioner to believe that the GHG disclosures are not prepared, in all material respects, in accordance with the applicable criteria.

Moved up [2]: (Ref: Para.

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In the case of reasonable assurance that, the GHG disclosures are prepared, in all material respects, in accordance with the applicable criteria; or

Moved up [4]: (Ref: Para.

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Inherent Uncertainty in Preparing GHG Disclosures

36. The assurance report shall include a statement that GHG quantification is subject to inherent uncertainty.

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Other Communication Responsibilities

Identification of Applicable Standards

37. The assurance report shall identify the applicable standards, including any professional or accreditation standards, that have been applied.

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 If the assurance practitioner:¶
 Concludes that based, on the assurance evidence obtained, the GHG disclosures are not free from material misstatement; or¶
 Is unable to obtain sufficient appropriate assurance evidence to conclude that the GHG disclosures are free from material misstatement ¶
 the assurance practitioner shall modify their opinion or conclusion in the assurance report. (Ref: Para. A23 – A26) ¶
Other communication responsibilities¶

Existence of Relationships with the Assurance Client or the GHG disclosures

38. The assurance report shall include a statement as to the existence of any relationship (other than undertaking the assurance engagement) which the assurance practitioner or assurance organisation has with, or in, the assurance client or any of its subsidiaries.

Deleted: relationship/s

39. The assurance report shall state that the assurance organisation is not permitted to be involved in the preparation of the GHG information as doing so may compromise independence.

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Including Additional Information in the Assurance Report

40. The engagement leader shall consider whether there are any other engagement-specific matters that should be included in the assurance report, such as:

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(a) Information about materiality considerations so that it is transparent to the intended user what tolerance for misstatement has been applied in conducting the assurance engagement.

Moved up [5]: The assurance report shall include a statement that GHG quantification is subject to inherent uncertainty. ¶

(b) Details of the qualifications and experience of the engagement leader and others involved with the engagement.

Deleted: (Ref: Para. A27).

Name of Engagement Leader

41. The assurance report shall include the name of the engagement leader.

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Quality Management Requirements

42. The assurance organisation shall design, implement and operate a system of quality management that is appropriate for the conduct of GHG disclosures assurance engagements.

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 The assurance report shall identify the standards, including the professional or accreditation standards, that have been applied. ¶

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Risk Assessment and Monitoring

43. The assurance organisation shall apply a risk-based approach in designing, implementing and operating the system of quality management in an interconnected and coordinated manner such that the assurance organisation proactively manages the quality of GHG disclosures assurance engagements they perform.

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44. The assurance organisation shall design and implement a risk assessment process to:

- (a) Establish objectives relating to quality (quality objectives);
- (b) Identify and assess risks relating to quality (quality risks); and
- (c) Design and implement responses to address the quality risks (risk responses).

45. When designing and implementing a risk assessment process, the assurance organisation shall consider the following areas:

- (a) Governance and leadership
- (b) Relevant ethical requirements

- (c) Acceptance and continuance of client relationships and specific engagements
- (d) Engagement performance
- (e) Resources
- (f) Information and communication.

46. The assurance organisation shall establish a monitoring and remediation process to:
- (a) Provide relevant, reliable and timely information about the design, implementation and operation of the system of quality management; and
 - (b) Take appropriate action to respond to identified deficiencies such that deficiencies are remediated on a timely basis.

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Documentation

47. The assurance organisation shall prepare and maintain documentation of its system of quality management that is sufficient to:
- (a) Support a consistent understanding of the system of quality management by personnel, including an understanding of the roles and responsibilities with respect to the system of quality management and the performance of GHG disclosures assurance engagements;
 - (b) Support the consistent implementation and operation of the responses; and
 - (c) Provide evidence of the design, implementation and operation of the responses.

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Engagement Performance

48. The assurance organisation shall establish policies and procedures that include:
- (a) Matters to promote consistency in the quality of engagement performance;
 - (b) Supervision responsibilities; and
 - (c) Review responsibilities on the basis that work of less experienced team members is reviewed by more experienced engagement team members.

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Engagement Leader

49. The engagement leader shall take overall responsibility for acceptance and continuance of the assurance engagement, direction, supervision and review of the assurance team, undertaking adequate consultation during the engagement, satisfactory completion of the independent review, adequately addressing any independence or quality management matters arising and resolving any differences of opinion.
50. The engagement leader shall ensure that the following matters are adequately documented:
- (a) Issues identified, relevant discussions with personnel, and conclusions reached with respect to:
 - (i) Fulfilment of relevant ethical and independence requirements; and
 - (ii) The acceptance and continuance of the client relationship and assurance engagement;
 - (b) Obtaining sufficient appropriate assurance evidence to be able to draw conclusions; and

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(c) The nature and scope of, and conclusions resulting from, consultations undertaken during the assurance engagement and how such conclusions were implemented.

Consultation

51. The assurance organisation shall establish policies and procedures to enable appropriate consultations on difficult or contentious matters, that include:
- (a) Sufficient resources are available to enable appropriate consultation to take place;
 - (b) The nature and scope of, and conclusions resulting from, such consultations are documented and are agreed by both the individual seeking consultation and the individual consulted; and
 - (c) Conclusions resulting from consultations are implemented; or the reasons alternative courses of action from consultations were undertaken are documented.

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Appropriate consultation takes place

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Independent Review

52. An independent reviewer shall be appointed to evaluate:
- (a) The appropriateness of the assurance team competencies;
 - (b) Whether the assurance engagement has been designed appropriately;
 - (c) Whether all assurance engagement requirements have been met, including compliance with the relevant standards;
 - (d) The basis for the engagement leader's determination that relevant ethical and independent requirements have been met;
 - (e) Significant matters and judgements made during the assurance engagement;
 - (f) Whether sufficient and appropriate evidence was obtained to support the assurance report;
 - (g) Whether the evidence obtained supports the conclusion proposed by the assurance team; and
 - (h) The GHG disclosures and assurance report.
53. The independent reviewer shall be competent and independent from the assurance client and the GHG disclosures.
54. The independent review shall be completed before the assurance report is issued.
55. The assurance team shall address concerns raised by the independent reviewer.
56. The results of the independent review shall be documented.

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Application Material

Scope

A1. The Act does not prevent the assurance engagement from covering the whole, or other parts of the climate statements.

Definitions

A2. The purpose of communicating key matters is to enhance the communicative value of the assurance report. Key matters provide additional information to assist users in understanding those matters that, in the assurance practitioner’s professional judgement, were of most significance in the assurance engagement. Communicating key matters may assist users in understanding the areas of significant management judgement in the GHG disclosures, any areas where there was significant estimation or inherent uncertainty involved, data quality issues, issues in obtaining the assurance evidence required or issues in determining the GHG reporting boundary.

A3. When determining key matters, an assurance practitioner may consider areas that required significant attention during the engagement, for example due to:

- Complexity
- Significant management judgment
- Nature and severity of difficulties in applying assurance procedures
- Consultations on difficult matters
- Assessed risk of material misstatement.

A4. A matter that results in a modified opinion is not communicated as a key matter. A key matter is not used if the assurance practitioner disclaims an opinion or conclusion.

Requirements

Applicable Assurance Standards

A5. Assurance practitioners may also be required to comply with accreditation requirements or professional body requirements. Where this is the case, these requirements continue to apply.

Ethical Requirements

Independence

A6. Independence comprises:

- (a) The state of mind that enables reaching conclusions without being affected by influences that compromise professional judgement (independence of mind); and
- (b) The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that the assurance practitioner’s integrity and objectivity has been compromised (independence of appearance).

Threats

A7. Threats to compliance with the fundamental principles fall into one or more of the following categories:

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The engagement leader shall take overall responsibility for acceptance and continuance of the assurance engagement, direction, supervision and review of the assurance team, undertaking adequate consultation during the engagement, satisfactory completion of the independent review, adequately addressing any independence or quality management matters arising and resolving any differences of opinion. ¶
The engagement leader shall ensure that the following matters are adequately documented: ¶
(a) Issues identified, relevant discussions with personnel, and conclusions reached with respect to: ¶
(i) Fulfilment of relevant ethical and independence requirements;

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- (ii) The acceptance and continuance of the client relationship and assurance engagement. ¶
- (b) The nature and scope of, and conclusions resulting from, consultations undertaken during the assurance engagement and how such conclusions were implemented. ¶

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¶ Application Material¶

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- (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence an assurance practitioner’s judgement or behaviour;
- (b) Self-review threat – the threat that an assurance practitioner will not appropriately evaluate the results of a previous judgement made, or an activity performed by the assurance practitioner, or by another individual within the assurance organisation, on which the assurance practitioner will rely when forming a judgement as part of performing a current activity;
- (c) Advocacy threat – the threat that an assurance practitioner will promote a client’s position to the point that the assurance practitioner’s objectivity is compromised;
- (d) Familiarity threat – the threat that due to a long or close relationship with a client, an assurance practitioner will be too sympathetic to their interests or too accepting of their work; and
- (e) Intimidation threat – the threat that an assurance practitioner will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the assurance practitioner.

Reducing Threats to an Acceptable Level

- A8. An acceptable level is a level when a reasonable and informed third party, having access to all relevant facts, could conclude that the assurance practitioner has complied with the fundamental principles.
- A9. A reasonable and informed third party means that the third party would have the knowledge and experience to understand the relevant facts and would be able to evaluate the assurance practitioner’s conclusions in an impartial manner.

Independence Requirements

Conditions and Relationships

- A10. Examples of conditions and relationships that may create threats to the fundamental principles include:
 - Relative size of assurance fee.
 - Accepting or offering gifts or hospitality.
 - Close business relationships.
 - Family or personal relationships.
 - Temporary personnel assignments.
 - Employment relationships.
 - Recent service with an assurance client.
 - Serving as a director/trustee/officer of an assurance client.

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Self-review Threat Prohibition

- A11. A service might possibly create a self-review threat where:
 - (a) The results of the service will form part of, or affect the records, the internal controls over GHG emissions, or the GHG disclosures on which the assurance practitioner will express an assurance conclusion (e.g., measurement methods and estimation tools); and

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- (b) In the course of the assurance engagement, the assurance practitioner will evaluate, or rely on, any judgements made, or activities performed, by the assurance organisation when providing the service, including when:
- (i) An assurance organisation uses technology to provide a service; or
 - (ii) An assurance organisation provides, sells, resells or licenses technology to the assurance client.

A12. A self-review threat might possibly be created when IT services are provided to an assurance client. Providing IT services might possibly create a self-review threat when the IT system forms part of, or affects, the assurance client's records or systems of internal control over GHG measurement or disclosures. Examples of such IT services include:

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- Designing, developing, implementing, operating, maintaining, monitoring or updating IT systems.
- Supporting an assurance client's IT systems, including network and software applications.
- Implementing GHG measurement or reporting software, whether or not this was developed by the assurance organisation.

A13. A self-review threat might possibly be created by services provided at the same time as an assurance engagement is performed or by services provided before the start of the assurance engagement period.

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Prohibition on assuming management responsibilities

A14. When an assurance organisation or assurance practitioner assumes a management responsibility for an assurance client, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the assurance organisation or assurance practitioner may become too closely aligned with the views and interests of management.

A15. Examples of management responsibilities include:

- Setting policies and strategic direction.
- Directing and taking responsibility for the actions of employees.
- Deciding which recommendations of the assurance practitioner or third parties to implement.
- Taking responsibility for designing, implementing, monitoring and maintaining internal controls relating to GHG emissions.
- Taking responsibility for the preparation of the GHG disclosures.
- Taking responsibility for the methods and calculations relating to measurement of GHG emissions.

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Financial Interest Prohibition

A16. A financial interest is an interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest. Financial interests are classified as either a:

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- (a) Direct financial interest: A financial interest:
- (i) Owned directly by an individual or entity; or

(ii) Owned through an intermediary over which an individual or entity has control, or the ability to influence investment decisions.

(b) Indirect financial interest: A financial interest owned through an intermediary over which an individual or entity has no control or ability to influence investment decisions.

A17. Examples of a direct interest are:

- Holding shares in the assurance client.
- Being a trustee of a trust that holds shares in an assurance client.

A18. Examples of an indirect interest are:

- Shares owned through collective investment schemes.
- Shares owned through pension schemes.

A19. When determining whether an indirect financial interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

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Competence

A20. Skills and competence in assurance are developed through extensive training and practical application of assurance techniques, including performance of assurance engagements in accordance with relevant standards and applicable legal and regulatory requirements.

A21. Skill and competence in assurance necessary to undertake an assurance engagement include:

- Risk assessment methodologies.
- Sampling techniques.
- GHG information systems and internal controls (how data is initiated, recorded, collated and reported in a GHG disclosures).

A22. Skills and competence in GHG emissions are gained through significant experience in measuring, analysing, reporting and/or attesting GHG emissions.

A23. Skills and competence in GHG emissions necessary to undertake an assurance engagement include:

- General understanding of climate science.
- GHG quantification methods, including associated scientific and estimation uncertainties relevant to the assurance client's sector.
- GHG reporting principles and methods.
- GHG monitoring techniques and calibration procedures and their consequences for data quality (relevant for the assurance client's sector).
- Understanding of laws and regulations that affect how the assurance client reports its emissions.

A24. An assurance practitioner may use the work of an expert if they conclude that the work of that expert is adequate for the assurance practitioner's purposes. However, the assurance practitioner has sole responsibility for the engagement. That responsibility is not reduced by the work of the expert. The assurance practitioner needs to have sufficient understanding of the GHG emissions to be able to:

- (a) When needed, ask appropriate questions of the expert and evaluate whether the answers make sense in the engagement circumstances;
- (b) Evaluate the 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.

Reliance on the Work of Others

A25. When placing reliance on work undertaken by others, it is important to ensure that objectivity is not compromised. As such, it is important to consider whether others involved in the engagement have any interests or relationships that might create a self-review, self-interest, familiarity, intimidation or advocacy threat. Such considerations would normally include whether the individual has any relevant:

- Financial interests;
- Business and personal relationships; or
- Provides any other services to the assurance client.

Independent Assurance Report

Form and Level of the Conclusion

A26. An example of how an unmodified conclusion may be expressed for limited assurance is as follows:

“Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the GHG disclosures (on pages [x] to [y] of the climate statements) for the year ended 31 December 20X1 are not prepared, in all material respects, in accordance with the Aotearoa New Zealand Climate Standards (NZ CSs) and [measurement criteria such as Greenhouse Gas Protocol Corporate Standard].”

Or

“Based on our examination of the evidence, nothing comes to our attention which causes us to believe that the assumptions (disclosed on pages [x] to [y] of the climate statements), do not provide a reasonable basis for the forecast. Further, in our opinion, the forecast is properly prepared on the basis of the assumptions and in accordance with [measurement criteria such as Greenhouse Gas Protocol Corporate Standard].

Actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation may be material.”

Or

“Based on the evidence we have obtained, we have not found any evidence to indicate that the assumptions, methods and limitations (disclosed on pages [x] to [y] of the climate statements), used to develop forecasts and projections, do not provide a reasonable basis for the forecast”.

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Deleted: in section X of the Climate Statement) for the year ended 31 December 20X1 are not prepared, in all material respects, in accordance with the Aotearoa New Zealand Climate Standards (NZCs) and [recognised measurement criteria such as Greenhouse Gas Protocol Corporate Standard]”.¶ An example of how an opinion may be expressed for reasonable assurance is as follows:¶ “In our opinion, the GHG disclosures (in section X of the Climate Statement) for the year ended 31 December 20X1 are prepared, in all material respects, in accordance with the Aotearoa New Zealand Climate Standards (NZCs) and [recognised measurement criteria such as Greenhouse Gas Protocol Corporate Standard]”.¶ <i>Modified conclusions and opinions</i> ¶ An example of how a modified conclusion may be expressed for limited assurance is as follows:¶ “ Modified conclusion – ¶ Based on the procedures performed and the evidence obtained, except for the effect of the matter described in the Basis for Modified Conclusion section of our report, nothing has come to our attention causes us to believe that the GHG disclosures (in section X of the Climate Statement) for the year ended 31 December 20X1 are not prepared, in all material respects, in accordance with the Aotearoa New Zealand Climate Standards (NZCs) and [recognised measurement criteria such as Greenhouse Gas Protocol Corporate Standard]”. ¶ An example of how a modified opinion may be expressed for reasonable assurance is as follows:¶ “ Modified opinion – ¶ In our opinion, except for the effect of the matter described in the Basis for Modified Opinion section of our report, the GHG disclosures (in section X of the Climate Statement) for the year ended 31 December 20X1 are prepared, in all material respects, in accordance with the Aotearoa New Zealand Climate Standards (NZCs) and [recognised measurement criteria such as Greenhouse Gas Protocol Corporate Standard]”. ¶ Where there is a material and pervasive misstatement, an example of how an adverse conclusion may be expressed for both reasonable and limited assurance is as follows:¶ “ Adverse conclusion/opinion – ¶ Because of the significance of the matter described in the Basis for Adverse Conclusion/Opinion section of our report, the GHG disclosures (in section X of the Climate Statement...
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A27. An example of how an unmodified conclusion may be expressed for reasonable assurance is as follows:

"In our opinion, the GHG disclosures (on pages [x] to [y] of the climate statements) for the year ended 31 December 20X1, are prepared, in all material respects, in accordance with the Aotearoa New Zealand Climate Standards NZ CSs) and [measurement criteria such as Greenhouse Gas Protocol Corporate Standard]".

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Because of the significance of the matter described in the Basis for Disclaimer of Conclusion/Opinion section of our report, we have not been able to obtain sufficient appropriate evidence to form a conclusion on

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Materiality¶

Materiality is a matter of professional judgement. The concept of materiality is defined within

Deleted: Statement 3. A percentage is often applied to a chosen benchmark as a starting point in determining materiality. Different materiality levels are generally applied to scope 1, 2 and 3 emissions, given the significant range in volumes reported for each scope.

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Appendix: Illustrative Limited Assurance Report

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Unmodified Limited Assurance Report on GHG Disclosures

INDEPENDENT PRACTITIONER’S LIMITED ASSURANCE REPORT ON GREENHOUSE GAS DISCLOSURES

To the Intended Users

We have undertaken a limited assurance engagement on the Greenhouse Gas (GHG) disclosures ('GHG disclosures') on pages [x] to [y] of the Climate statements for the year ended xx xxxxx 20X1.

Our assurance engagement does not extend to any other information included in the Climate statements 20X1 or referred to in the Climate statements 20X1. We have not performed any procedures with respect to the excluded information and, therefore, no conclusion is expressed on it.

Our Limited Assurance Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the GHG disclosures on pages [x] to [y] of the climate statements for the year ended xx xxxxx 20X1 are not prepared, in all material respects, in accordance with Aotearoa New Zealand Climate Standards (NZ CSs) issued by the XRB, measured in accordance with [measurement criteria such as *Greenhouse Gas Protocol Corporate Standard*].

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{Some reports might express a limited assurance conclusion on parts of the GHG disclosures as follows:

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“Based on our examination of the evidence, nothing comes to our attention which causes us to believe that the assumptions do not provide a reasonable basis for the forecast. Further, in our opinion, the forecast is properly prepared on the basis of the assumptions and in accordance with XYZ’s climate change regulations.

Moved down [7]: We draw attention to Section x which describes {inherent uncertainty/exclusions, etc.} Our conclusion is not modified in respect of this matter.¶

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Actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation may be material.”}

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GHG quantification is subject to inherent uncertainty

Deleted: inconclusive scientific knowledge is used to determine emissions factors and the volumes required to combine emissions of different gases are estimated.

{If some GHG disclosures are subject to reasonable assurance and others are subject to limited assurance, the assurance report shall clearly identify the GHG disclosures that are subject to each level of assurance and the related conclusion}.

Key Matters

In this section we present those matters, that, in our professional judgement, were most significant to the assurance engagement. These matters were addressed in the context of our assurance engagement of the GHG disclosures, and in forming our conclusion, and we do not provide a separate conclusion on these matters.

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{Include an explanation of why the matter is a key matter and outline what the assurance practitioner has done to address the matter.}

Emphasis of Matter (where applicable)

We draw attention to Section x which describes {inherent uncertainty/exclusions, etc.} Our conclusion is not modified in respect of this matter.

Moved (insertion) [7]

Comparative Information (where applicable, especially on transition to mandatory assurance)

[The comparative GHG disclosures (i.e. GHG disclosures for the period ended 31 xxxx 202x) have not been subject to assurance. As such, these disclosures are not covered by our assurance conclusion.]

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{If relevant – i.e. as part of the entity’s
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Materiality [encouraged disclosure]

[Based on our professional judgment, we determined quantitative materiality for the GHG disclosures as follows:

- ...]

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Competence and Experience of the engagement team [encouraged disclosure]

[Our work was carried out by an independent and multi-disciplinary team including assurance practitioners, engineers and environmental scientists. The assurance practitioner retains overall responsibility for the assurance conclusion provided.]

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ABC’s Responsibilities

ABC is responsible for the preparation and fair presentation of the GHG disclosures in accordance with the applicable criteria. This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation of GHG disclosures that are free from material misstatement.

[As discussed on page x of the climate statement]⁴ GHG quantification is subject to inherent uncertainty [because of incomplete scientific knowledge used to determine emissions factors, the values needed to combine emissions of different gases and the level of estimation uncertainty.]

Our Responsibilities

We are responsible for:

- Planning and performing the engagement to obtain limited assurance about whether the GHG disclosures are free from material misstatement, whether due to fraud or error;
- Forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- Reporting our conclusion to the addressee of the report of ABC.

As we are engaged to form an independent conclusion on the GHG disclosures prepared by management, we are not permitted to be involved in the preparation of the GHG information as doing so may compromise our independence.

Other relationships

Other than in our capacity as assurance practitioners, and the provision of the assurance engagement over GHG disclosures, we have no relationship with, or interests, in the ABC.

Standards Applied

This engagement was undertaken in accordance with NZ SAE 1, [ISAE (NZ) 3410 or ISO 14064-3] and [state which assurance standard and/or professional and ethical standards or accreditation body requirements were applied, e.g., NZICA Code of Ethics, ISO 14065, ISO 14066, ISO 17029].

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⁴ Where there is no discussion of the inherent uncertainty in the climate statements, this should be deleted.

Summary of Work Performed

[In a limited assurance engagement, it is important for the practitioner to insert a summary of the nature and extent of procedures performed that, in the practitioner's judgement, provides additional information that may be relevant to the users' understanding of the basis for the assurance practitioner's conclusion. The following section has been provided as guidance, and the example procedures are not an exhaustive list of either the type, or extent, of the procedures which may be important for the users' understanding of the work done.]

We are required to plan and perform our work to address the areas where we consider that a material misstatement of the GHG disclosures may arise. The procedures we performed were based on our professional judgement. In undertaking our limited assurance engagement on the GHG disclosures, we:

- Obtained, through inquiries, an understanding of ABC's control environment, processes and information systems relevant to the preparation of the GHG disclosures. We did not evaluate the design of particular control activities, or obtain evidence about their implementation;
- Evaluated whether ABC's methods for developing estimates are appropriate and had been consistently applied. Our procedures did not include testing the data on which the estimates are based or separately developing our own estimates against which to evaluate ABC's estimates;
- Undertook site visits at xx of ABC's xx sites;
- Tested, at each site visited, a limited number of items to, or from, supporting records, as appropriate;
- Performed analytical procedures by comparing the expected GHGs emitted to actual GHGs emitted and made inquiries of management to obtain explanations for any significant differences we identified;
- Considered the presentation and disclosure of the GHG disclosures.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement.

[Engagement leader's signature]

[Name of engagement leader]

[Date of the assurance report]

[Address of assurance organisation where engagement leader is based]

Exposure Draft
October 2022
Comments due: April 24, 2023

International Standard on Auditing

Proposed International Standard on Auditing 500 (Revised)

Audit Evidence

and

Proposed Conforming and Consequential Amendments to Other ISAs

IAASB

International Auditing
and Assurance
Standards Board

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).

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ISA.

IAASB
International Auditing
and Assurance
Standards Board®

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. 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 540¹ (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:

¹ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

- Certain issues, primarily related to possible enhancements to other ISAs (e.g., ISA 330)² 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.³
- 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 240⁴ 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.

² ISA 330, *The Auditor's Responses to Assessed Risks*

³ 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.

⁴ 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
<p>Responding to changes in the information that is being used by auditors, including the nature and source of the information</p>	<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"> • 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. 	<p>9, A34–A62</p>

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"> • 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. 	11, A66–A78
<p>Modernizing and supporting a principles-based standard that recognizes the evolution in technology</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"> • 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. 	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
Fostering the maintenance of professional skepticism when making judgments about information to be used as audit evidence and sufficient appropriate audit evidence	<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"> • 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. 	<p>4, 8(a), 9, 13, A19–A23, A43–A44, A51, A53, A57, A59–A62, A84–A88</p>

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 200.⁵ 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.⁶
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.

⁵ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

⁶ 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 330.⁷ 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).⁸ 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.

⁷ ISA 330, paragraph 7(b)

⁸ 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)⁹ and ISA 540 (Revised).¹⁰ 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).

⁹ ISA 315 (Revised 2019), paragraph 13

¹⁰ 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 230¹¹ 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.

¹¹ 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 330.¹² 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

¹² 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 200¹³ 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.¹⁴ 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.

¹³ ISA 200, paragraph 13(b)

¹⁴ 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 200¹ 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.² (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)).³ In addition, ISA 330⁴ 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.⁵ 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.

¹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

² ISA 200, paragraph 17

³ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

⁴ ISA 330, *The Auditor's Responses to Assesses Risks*

⁵ 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 330,⁶ 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.

* * *

⁶ 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.⁷ 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)⁸ 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.⁹

⁷ ISA 200, paragraph A30

⁸ ISA 315 (Revised 2019), paragraphs 13–16

⁹ 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.¹⁰
 - Observe or inspect, in particular assets, for example through the use of remote observation tools (e.g., a drone).¹¹

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 330.¹² 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.¹³

Interrelationship of the Sufficiency, Appropriateness and Persuasiveness of Audit Evidence

A6. The sufficiency and appropriateness of audit evidence are interrelated.¹⁴ 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.¹⁵

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).¹⁶ 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.

¹⁰ ISA 315 (Revised 2019), paragraph A21

¹¹ ISA 315 (Revised 2019), paragraph A35

¹² ISA 330, paragraph 26

¹³ ISA 330, paragraph A62

¹⁴ ISA 200, paragraph A31

¹⁵ ISA 330, paragraphs 7(b) and 9

¹⁶ 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 200¹⁷ 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)¹⁸ 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

¹⁷ ISA 200, paragraph A50

¹⁸ 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.¹⁹ 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.²⁰ 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

¹⁹ ISA 330, paragraph A5

²⁰ ISA 315 (Revised 2019), paragraph A19

(e.g., a topic-specific ISA, such as ISA 540 (Revised))²¹ 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)²² 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.

²¹ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

²² 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.²³

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 200²⁴ explains that detection risk is a function of:

- The effectiveness of an audit procedure; and
- The application of the audit procedure by the auditor.

²³ 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

²⁴ 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.²⁵

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 530.²⁶

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

²⁵ ISA 315 (Revised 2019), paragraph A161

²⁶ 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 620.²⁷

²⁷ ISA 620, *Using the Work of an Auditor’s Expert*

- Audit procedures performed in accordance with ISA 402²⁸ 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.²⁹
- A40. ISA 230³⁰ 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

²⁸ ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

²⁹ ISA 315 (Revised 2019), paragraph 37

³⁰ 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)³¹ 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

³¹ 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).³²

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.

³² 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.³³

- 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.

³³ 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.³⁴ 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.³⁵
- 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),³⁶ 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.

³⁴ ISA 200, paragraph A23

³⁵ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 14

³⁶ 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 expert³⁷ 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 265³⁸ 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

³⁷ ISA 620, paragraph 7

³⁸ 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.³⁹ 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 200,⁴⁰ 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 580⁴¹ 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.⁴² 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

³⁹ ISA 505, *External Confirmations*, paragraph A14

⁴⁰ ISA 200, paragraph A23

⁴¹ ISA 580, *Written Representations*, paragraphs 16-18

⁴² ISA 315 (Revised 2019), paragraph 35

to the assessed risks of material misstatement at the assertion level.⁴³ 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.⁴⁴

- A85. ISA 330 addresses the auditor's responsibility to conclude whether sufficient appropriate audit evidence has been obtained.⁴⁵ The auditor's judgment as to what constitutes sufficient appropriate audit evidence is influenced by, among other factors, the results of audit procedures performed.⁴⁶ 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.⁴⁷ 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).⁴⁸
- 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)⁴⁹ 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.

⁴³ ISA 330, paragraphs 5-6

⁴⁴ ISA 315 (Revised 2019), paragraph A194

⁴⁵ ISA 330, paragraph 26

⁴⁶ ISA 330, paragraph A62

⁴⁷ ISA 330, paragraph 27

⁴⁸ ISA 570 (Revised), *Going Concern*, paragraph 17

⁴⁹ 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).⁵⁰

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.⁵¹

⁵⁰ ISA 315 (Revised 2019), paragraph 37

⁵¹ 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 505⁵² deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with ISA 330 and ISA 500.
 - ISA 520⁵³ 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.

⁵² ISA 505, *External Confirmations*

⁵³ 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.⁵⁴

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 501⁵⁵ 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.

⁵⁴ ISA 501, *Audit Evidence—Specific Considerations for Selected Items*

⁵⁵ 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. Reperformance 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),⁵⁶

⁵⁶ 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.¹ 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.²

...

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 audit³) 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.⁴ ~~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.

...

¹ ISA 500 (Revised), *Audit Evidence*, paragraphs 7-9

² ISA 240, paragraph 14; ISA 500 (Revised), paragraph 41-42; ISA 505, *External Confirmations*, paragraphs 10-11, and 16

³ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph 16

⁴ 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 procedures⁵ 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.⁶ Audit procedures include ~~comprise~~ risk assessment procedures,⁷ and further audit procedures.⁸ 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.⁹ ~~Other ISAs may also include specific procedures to obtain audit evidence, for example, ISA 520.~~¹⁰

...

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

⁵ ISA 500 (Revised), *Audit Evidence*, paragraph A24

⁶ ISA 200, paragraph A30

⁷ ISA 315 (Revised 2019) provides requirements related to risk assessment procedures.

⁸ ISA 330, *The Auditor's Responses to Assessed Risks*, provides requirements related to further audit procedures, including tests of controls and substantive procedures.

⁹ ISA 500 (Revised), paragraphs A164–A25, *Appendix*

¹⁰ 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,¹¹ 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.

¹¹ 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).¹²

...

Types of Risk Assessment Procedures (Ref: Para. 14)

A19. ISA 500 (Revised)¹³ 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.¹⁴ 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.¹⁵

...

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.¹⁶ For example, when the audit evidence obtained from risk assessment procedures includes evidence that both

¹² ISA 500 (Revised), paragraph 97

¹³ ISA 500 (Revised), paragraph A16~~14~~-A17 and Appendix A21–A25

¹⁴ ISA 500 (Revised), paragraph A42~~42~~

¹⁵ ISA 500 (Revised), paragraph 8(a)~~A1~~

¹⁶ 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 330¹⁷ and ISA 500 (Revised).¹⁸ It does not address inquiries regarding litigation and claims, which are dealt with in ISA 501.¹⁹

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.²⁰ ~~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~~

¹⁷ ISA 330, *The Auditor's Responses to Assessed Risks*

¹⁸ ISA 500 (Revised), *Audit Evidence*

¹⁹ ISA 501, *Audit Evidence—Specific Considerations for Selected Items*

²⁰ ~~ISA 500, paragraph A9~~

~~of the design of the audit procedures and the auditor's application of those audit procedures.²¹ 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:²²~~

- ~~• 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.²³
 - 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.²⁴

...

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~~ determine whether further audit evidence is necessary. (Ref: Para A24–A25)

Application and Other Explanatory Material

...

²¹ ISA 500 (Revised), paragraph A13

²² ~~ISA 500, paragraph A5~~

²³ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph A38

²⁴ 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.²⁵ 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.²⁶ 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.

...

.....

²⁵ ISA 500 (Revised), paragraph A5035

²⁶ 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.²⁷ 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;²⁸
- (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.²⁹ 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~~

²⁷ ISA 500 (Revised), *Audit Evidence*, paragraph A50

²⁸ ISA 500, *Audit Evidence*, paragraph A35

²⁹ 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.³⁰

...

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),³¹ 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

³⁰ ISA 500, paragraph 10

³¹ 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),³² ISA 330,³³ ISA 450,³⁴ ISA 500 (Revised)³⁵ 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

...

³² ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

³³ ISA 330, *The Auditor's Responses to Assessed Risks*

³⁴ ISA 450, *Evaluation of Misstatements Identified during the Audit*

³⁵ 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,³⁶ 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 corroborative or contradictory the assertions in the financial statements.³⁷ 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).³⁸

...

³⁶ ISA 330, paragraphs 25–26

³⁷ ISA 500 (Revised), paragraph 13-14

³⁸ 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.³⁹ 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.~~⁴⁰

...

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.

³⁹ ISA 500 (Revised), paragraph A15

⁴⁰ ISA 500 (Revised), paragraphs 9-10

External Information Sources

A127. As explained in ISA 500 (Revised),⁴¹ 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 ~~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

⁴¹ 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.⁴² 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)

...

⁴² ISA 500 (Revised), *Audit Evidence*, paragraph 7(b)5(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 330.⁴³

...

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).⁴⁴ 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)

⁴³ ISA 330, *The Auditor's Responses to Assessed Risks*

⁴⁴ 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);⁴⁵ 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).⁴⁶

...

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.

⁴⁵ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph A19

⁴⁶ 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)⁴⁷ 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 ~~of~~ 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

⁴⁷ 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 ~~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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Analysis of feedback received on consultation

1. The following is a summary of the feedback received on consultation and the staff response to the feedback in preparing the final standard for Board consideration. This paper focuses on the responses to the questions asked in the invitation to comment. A detailed response to the EY submission is included in agenda item 6.6.

A: Scope

Question 1 Do you agree with the scoping of the proposed SAE as described in paragraph 10 of this ITC? If not, please explain why not.

Feedback

2. The majority of respondents agreed with the narrow scope of the proposed standard, but questioned whether it could be applied more broadly, for example, to a NZX direct listing engagement or for prospective financial information prepared for another purpose.
3. EY disagreed with the narrow scope, noting that the principles of the proposed SAE can also be applied to financial information which may be prepared but not necessarily published for similar capital raising transactions. Their view is that the scope should be expanded.

Staff response

4. The Board previously agreed that due to the complexity of these engagements, it is appropriate to apply a narrow scope to the standard.
5. We do, however, recognise that the standard provides a valuable framework for broader application for assurance over financial information, including prospective financial information, prepared for another purpose (e.g., direct listing) Accordingly we have revised paragraph 2 which deals with the applicability of the standard. Paragraph 2 now states that the standard may be applied, adapted as necessary, to financial information prepared for another purpose. (refer agenda item 6.3, paragraph 2)

B: Limited assurance

Question 2. Do you agree that the assurance practitioner should provide a limited assurance conclusion only on the types of financial information covered by the assurance report? If not, please explain why not.

Feedback

6. All respondents agreed, given the subjective nature of the financial information, that limited assurance is appropriate.
7. KMPG observed that the ASAE appears to drive the assurance practitioner to perform more detailed work on the historical financial information than is practice in New Zealand and questioned whether the intent of the proposed standard was to extend the scope of work on the historical financial information.

Staff response

8. It is not the intent of the standard to require further work beyond enquiry and analytical procedures, unless something comes to the assurance practitioner's attention. In developing the exposure draft, the Board considered the detailed requirements of the ASAE and amended those as necessary to reflect that the limited assurance engagement is based primarily on enquiry and analytical procedures.
9. No further action taken.

C: Engagement not performed by the auditor of the entity

Question 3. Do you agree that the proposed SAE should not include, as a precondition for engagement acceptance, that the assurance practitioner is also the auditor of the entity, if assurance is sought over historical financial information? If not, please explain why not.

Feedback

10. Respondents agreed with the proposal. No further action required.

Question 4. Is the interrelationship between the proposed SAE and the relevant review engagement standards, for assurance over the historical financial information, clear? If not, please explain why not and provide suggestions on how this could be clearer.

Feedback

11. One respondent noted that paragraphs 5-7 of the proposed standard could be clearer as to the meaning of applicable review engagement standards, suggesting that the definition of "review engagement standards" could be added to paragraph 5.
12. Another respondent considered the introductory paragraphs to be clear but questioned whether the clarity was lost throughout the rest of the proposed standard. This respondent's view was that the standard should first and foremost describe the specific requirements of the standard, and then when applicable, demonstrate the interrelationship in application and other explanatory material.
13. Other respondents either considered the interrelationship between the standards to be clear or had no comment.

Staff response

14. In paragraph 5 of the draft standard we have added a footnote to clarify the meaning of applicable review engagement standards. This footnote repeats the definition included in paragraph 11.
15. The lead in to paragraphs 13, 15 and 17 has been revised. In paragraph 16 the reference to ISAE (NZ) 3000 (Revised) and Review Engagement Standards has been removed.

Question 5. Is paragraph A11 sufficiently clear as to the difficulties the assurance practitioner might encounter when assurance is sought over historical financial information and the assurance practitioner is not also the auditor of the entity? If not, please explain why not and provide further examples.

16. Respondents generally considered paragraph A11 to be clear, however, one noted that it is quite wordy.
17. One respondent considered paragraph A11 could go further to provide guidance as to how to determine what additional procedures may be required by the assurance practitioner.

Staff response

18. The purpose of paragraph A11 is to highlight to the assurance practitioner highlight the difficulties that the assurance practitioner might encounter when not also the auditor of the entity if assurance over historical financial information is requested. The assurance practitioner must use judgement to determine whether they can obtain sufficient appropriate evidence to provide assurance historical financial information and what additional procedures might be necessary.
19. Paragraph A11 has been redrafted to make it clearer that if the assurance practitioner is not the auditor of the entity, the assurance practitioner will need to perform a review engagement that meets the requirements of ISRE (NZ) 2400 on the historical financial information in order to obtain sufficient appropriate evidence on which to base the limited assurance conclusion.

D: Naming the lead assurance practitioner

Question 6. Do you agree with the proposal to include the name of the lead assurance practitioner in the assurance report? If not, please explain why not.

Feedback

20. Respondents generally either agreed with or were ambivalent to the requirement to name the lead assurance practitioner in the assurance report.
21. One respondent did not agree with the proposal to name the lead assurance practitioner in the report. It is the firm that is engaged to perform the engagement and the individual performing the engagement is supported by the much broader firm structure. Further, adding the lead assurance practitioner's name to the report does not add value. The respondent also questioned why this is required in New Zealand, but is not required by the ASAE.
22. During the outreach event it was noted by Michael Bradbury that much of the academic evidence available indicates that naming the audit partner improves audit quality.

Staff response

23. No further action taken.

E: Obtaining an understanding and performing procedures

Question 7. In your view, are the required procedures consistent with a limited assurance engagement? If not, please identify the requirements and explain why, in your opinion they are not consistent with a limited assurance engagement.

Feedback

24. Respondents agreed that the required procedures are consistent with a limited assurance engagement.
25. EY noted that the procedures in respect of prospective financial information are long and seem repetitive with similar procedures being described multiple times. This respondent suggested that the procedures could be streamlined or cross-referenced to avoid repetition.

Staff response

26. In New Zealand assurance is voluntarily sought on the financial information. The assurance practitioner and the engaging party agree the financial information to be covered by the assurance conclusion. The aim is for the assurance practitioner to pick up the standard and identify the parts that apply. If the engagement does not include all the elements, the assurance practitioner will be referring to other sections in the standard frequently. Cross-referencing reduces the readability of the standard.
27. We recognise that there is repetition within some of the requirements. In particular, paragraphs 32, 34, 36 and 37. These paragraphs are consistent with the corresponding paragraphs in the ASAE.
28. No further action taken.

Question 8. In your view, are there any other procedures that should be required? Please describe the procedures and why, in your view, those procedures should be required.
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Feedback

29. One respondent recommended the standard explain what, if any, are the assurance practitioner's obligations regarding the "other information" that accompanies the assurance practitioner's report. This is important as the information over which the assurance practitioner is expressing a limited assurance conclusion is embedded in the Product Disclosure Statement or included in the register entry along with other information that is not subject to the assurance engagement.

Staff response

30. The assurance practitioner's consideration of other information is addressed in ISAE (NZ) 3000 (Revised) and NZ SRE 2410 (Revised), however, ISRS (NZ) 2400 does not specifically address the assurance practitioner's responsibility for other information. Accordingly, we have added requirements to the draft standard that require the assurance practitioner: (Refer paragraphs 55-56 of agenda item 4.2)
 1. To read the other information that accompanies the published financial information and to consider whether there are any material inconsistencies; and
 2. If a matter comes to the assurance practitioner's attention that causes the assurance practitioner to believe that the other information appears to include a material inconsistency, to discuss the matter with the responsible party.

31. These requirements are consistent with the requirements in ISAE (NZ) 3000 (Revised) and NZ SRE 2410 (Revised). Application material is included at paragraphs A75-A77 (Refer agenda item 6.3).
32. The illustrative report has also been revised to include a section on “other information.” (Appendix 1 of agenda item 6.3)

Feedback

33. The respondent further noted that the standard does not include any reference to FRS 42 *Prospective Financial Statements*. The respondent recommended that the standard should indicate that for capital raisings in New Zealand where the historical financial statements are prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards, any prospective financial information should be prepared in accordance with FRS 42.

Staff response

34. We have added footnote 8 to paragraph 10(h).

Feedback

35. Amendments to paragraph 17, to address assurance engagement risk, and paragraphs 20-23, to address the nature of the entity and the type of document that the offer will be included in were also suggested.

Staff response

36. Refer to the specific paragraphs in the draft standard for changes made.

F: Effective date

Question 9. Do you agree with the proposed effective date for engagements commencing on or after 15 December 2023, with early adoption permitted? If not, please explain why not.

Feedback

1. Respondents supported the effective date.

Staff response

2. No further action required.

Response to EY submission on ED 2022-3

EY Comment	Response
<p>Due Diligence Standards</p> <p>We understand that the Proposed Standard has largely been based on the equivalent Australian Standard on Assurance Engagements ASAE 3450 <i>Assurance Engagements involving Corporate Fundraisings and/ or Prospective Financial Information</i> (“ASAE 3450”). In the Australian market, there are also complementary standards issued by the Australian Professional & Ethical Standards Board in relation to a practitioner’s participation in a Due Diligence Committee established by an issuer for a capital markets transaction and associated due diligence reporting which typically accompanies a practitioner’s assurance engagement on financial information disclosed in an offer document. These standards include APES 345 <i>Reporting on Prospective Financial Information Prepared in connection with a Public Document</i>, APES 350 <i>Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document</i> and APES GN 31 <i>Professional and Ethical Considerations relating to Low Doc Offering Sign-offs</i>.</p> <p>There are currently no comparable standards in New Zealand relating to due diligence participation and reporting by a practitioner. This has led to differing market practice in New Zealand in relation to how practitioners navigate their engagement scope and reporting in capital markets transactions with issuers and Due Diligence Committees. We believe it is important for the XRB to give consideration to equivalent requirements and guidance in New Zealand as it seeks to align the requirements and practices of the two jurisdictions where possible and subject to country specific laws and regulations. In our view, this comprehensive approach would promote a more consistent framework in the application and interpretation of the Proposed Standard in relation to both the assurance report and the associated due diligence reporting undertaken by the practitioner.</p>	<p>Refer agenda item 6.2, section D</p> <p>Existence of APES 345 and APES 350 were highlighted to the Board early in the process of developing the proposed standard.</p> <p>APES 345 sets out the standards for members in public practice in the provision of quality and ethical professional services in respect of reporting service engagements. The requirements established in this standard duplicate requirements in PES 1 and the proposed standard.</p> <p>APES 350 deals with participation by a member in public practice in a due diligence committee (DDC) either as a DDC member or observer or a reporting person. The ethical requirements of this standard are based on APES 110 (the Australian equivalent to PES 1). The standard also addresses some areas of risk to the firm providing the service. The subject of this standard is outside the mandate of the XRB. Should such a standard be required in NZ, we believe this would fit within the remit of the NZICA Regulatory Board.</p>
<p>Limited vs. Reasonable Assurance on Financial Information</p> <p>The Proposed Standard allows limited assurance to be provided over financial information prepared in connection with a capital raising which we believe reflects an appropriate position in the NZ market. In our view, given the inherent uncertainty around the assumptions being achieved, and that most prospective financial information incorporates best estimate assumptions, there are very few circumstances where an assurance practitioner would be able to provide a reasonable assurance conclusion in relation to the best estimate assumptions. Limited assurance is consistent with current market practice in both Australia and NZ which does not support providing reasonable assurance around any elements of prospective financial information that contain best estimate assumptions given this uncertainty. We fully support the XRB’s position of only providing limited assurance conclusions on the financial information disclosed in connection with a capital raising.</p>	<p>Note support for XRB position</p>

<p>Interaction with Existing Auditing Standards</p> <p>We acknowledge there are existing NZ Auditing Standards which establish specific requirements and provide guidance for assurance practitioners reporting on financial information in connection with a capital raising or reporting on prospective financial information (including International Standards on Review Engagements (NZ) such as NZ 2400 and NZ 2410, in relation to historical information, and ISAE (NZ) 3000 (Revised) in relation to prospective information). However, we support the XRB in developing a stand-alone assurance standard covering both historical and prospective financial information as we believe there are sufficient unique criteria associated with capital raisings and prospective financial information that warrant a separate standard. We also believe the Proposed Standard will increase the consistency of assurance reports provided in these circumstances which we believe is in the public interest.</p> <p>That being said, we did observe several instances where the requirements have been directly referenced as being a requirement of Review Engagement Standards and ISAE (NZ) 3000 (Revised) only without it being specifically called out as a requirement of the Proposed Standard as well (some examples have been identified in our detailed comments in Appendix 2). The Proposed Standard should first and foremost set out specific requirements in itself and then where applicable, demonstrate the interrelationship in application and other explanatory material, noting that the relationship with other standards has already been covered upfront in paragraph 5 of the Proposed Standard.</p>	<p>Refer agenda item 6.2, section C</p> <p>The proposed standard is not a separate, stand-alone standard. It builds on the requirements of the 3000 and the applicable review engagement standard. The drafting convention is to reference the base requirement and then to add subject matter specific requirements that are additional to the base requirement.</p> <p>For example, ISAE (NZ) 3000 (Revised) and the applicable review engagement standards require the assurance practitioner to agree the terms of the engagement with the engaging party. There are specific terms to be agreed under those standards that are not repeated in the proposed standard. Rather, the proposed standard builds on the base standard requirements.</p> <p>Construct of paragraphs 13, 15, 17 has been revised in response.</p>
<p>Furthermore, we note that the reference in paragraph 11 of the Proposed Standard refers to Review Engagement Standards which apply to financial statements only, rather than review of historical financial information which may be in a form other than a financial report - to illustrate ASAE 3450 for example makes a specific reference to ASRE 2405 <i>Review of Historical Financial Information Other than a Financial Report</i> however we understand that NZ does not have an equivalent standard. This makes cross-referencing difficult for the purposes of the Proposed Standard as the historical financial information has been assessed against NZ SRE 2410 <i>Review of Financial Statements Performed by the Independent Auditor of the Entity</i> which is not directly comparable given the historical financial information is not in the same form as a set of financial statements, and as noted below only comprises selected financial information (some of which may be non-GAAP).</p>	<p>Developing a separate review engagement standard was outside the scope of this project.</p> <p>Both ISAE (NZ) 2400 (Revised) and NZ SRE 2410 state that while directed towards a review of financial statements, the standard is to be applied, adapted as necessary, to reviews of other historical financial information. We therefore consider that both ISAE (NZ) 2400 (Revised) and NZ SRE 2410 provide an appropriate basis on which to review the historical financial information. This standard then provides further requirements and application material applicable to this particular subject matter.</p>

<p>Consistency with Equivalent Australian Standard</p> <ul style="list-style-type: none"> ▶ Definitions outlined in paragraph 10 of the Proposed Standard for assumptions, pro forma adjustments, prospective financial information and stated basis of preparation are not consistent with ASAE 3450. In these cases, we don't believe there should be any differences in the meaning attributed to these given there are no market or regulatory differences in how they would be interpreted in Australia versus NZ. Further, the contextual reference as to who is responsible for these has also been removed, for example ASAE 3450 makes it clear that the assumptions, base financial information and pro forma adjustments are determined by the responsible party (usually the Directors of the IPO vehicle) whereas the Proposed Standard is silent on this potentially making it open to interpretation. Further, the definition of responsible party appears more limited than ASAE 3450. 	<p>Refer agenda item 6.2, section B</p> <p>Definition of assumptions based on FRS 42, paras 18-19</p> <p>Pro forma adjustments – minor editorial changes to the ASAE definition to respond to Board request to clarify what it means to be adjusted for pro forma adjustments per ASAE definition. Aligns more closely with definition in ISAE (NZ) 3420</p> <p>Prospective financial information – Based on the definition of GP prospective financial statements in FRS 42. ASAE definition is not consistent with FRS 42.</p> <p>Stated basis of preparation – first sentence is exactly the same. Examples of stated bases of preparation, appropriately New Zealandised has been added. Refer agenda item 6.3, para A8 .</p>
<ul style="list-style-type: none"> ▶ ASAE 3450 establishes requirements and provides application and other explanatory material in respect of areas such as Quality Control, Professional Scepticism, Professional Judgement, Documentation, Other Information Included in the Document and Inability to Comply with the Requirements of the Proposed Standard or other NZ Standards. No equivalent requirements or guidance exists in the Proposed Standard in respect of these areas. 	<p>NZAuASB decision not to duplicate the requirements of 3000/review engagement standards which deal with these areas. The proposed standard is NOT a stand-alone standard. The AP must comply with both the base standard and the proposed standard.</p>
<ul style="list-style-type: none"> ▶ ASAE 3450 includes a cross reference to existing auditing standards on matters such as going concern, subsequent events and use of experts. This allows the assurance practitioner to refer to those standards for further guidance and application material. 	<p>Going concern is addressed in the proposed SAE. Subsequent events and use of experts is addressed in the base standards.</p> <p>The ISAs (NZ) sit outside the suite of the “other assurance” standards. The AP is not precluded from making reference to these standards, however we have not referenced them.</p>
<p>Paragraphs 51(i) and (j) under the Proposed Standard require compliance statements of professional and ethical standards, including independence, to be made in the assurance report by the assurance practitioner. Whilst this is not a requirement under ASAE 3450 or ISAE (NZ) 3000 (Revised), in this instance we concur with this proposed requirement which will contribute to consistency across the market.</p> <p>We recommend that the XRB further reassess the consistency of requirements, application and other explanatory material under the Proposed Standard with ASAE 3450, where appropriate.</p>	<p>Support noted.</p>

<p>Relevant Accounting Framework</p> <p>Unlike ASAE 3450, the Proposed Standard does not define the “stated basis of preparation” with reference to an acceptable accounting framework as set by the accounting bodies/ regulators which would be appropriate for the responsible party to apply in its preparation of the financial information to be published in connection with a capital raising. For prospective financial information, given the responsible entity is required to prepare these in accordance with Financial Reporting Standard 42 <i>Prospective Financial Statements</i> (FRS-42), this is an important aspect to make clear in the Proposed Standard and gives the assurance practitioner a basis for its limited assurance conclusion. It would be helpful for the XRB to also provide guidance as part of the definition of the “stated basis of preparation” in the Proposed Standard on what would be appropriate in respect of historical, pro forma historical and pro forma prospective financial information.</p>	<p>Refer agenda item 6.2, section A</p> <p>As agreed by the NZAuASB, the standard is drafted in a framework neutral manner. One of the preconditions of the engagement under 3000 is that the criteria that the AP expects to be applied in the preparation of the subject matter information are suitable for the engagement circumstances¹, i.e., it is the AP’s responsibility to assess the suitability of the stated basis of preparation.</p> <p>We have added examples of stated bases of preparation. Ref agenda item 6.3, para A8. We have also added a second illustrative report which includes as engagement circumstances the review of the full set of financial information.</p>
<p>We note that there are material differences in market practice between Australia and New Zealand around disclosures of, and consequently the assurance provided on, financial information which need to be considered in drafting the Illustrative Engagement Letter and Assurance Report set out in Appendices 1 and 3 of the Proposed Standard. In Australia, the financial information upon which assurance is provided is limited to historical, pro forma historical, prospective and pro forma prospective financial information which have been prepared in accordance with an acceptable accounting framework but which may be published as part of a much, wider financial information disclosures within an offer document such as reconciliation tables of pro forma financial information to statutory information and to non-GAAP measures, key operating and financial metrics together with accounting policies. In each case, the financial information “tables” on which assurance is provided represent primary statements such as an income statement, cash flow statement or balance sheet which have been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards (and/or IFRS), which is consistent to ASIC’s expectations covered in Regulatory Guide (RG) 228 <i>Prospectuses: Effective Disclosure for Retail Investors</i> and RG 230 <i>Disclosing Non-IFRS Financial Information</i>. This results in historical and prospective (both statutory and pro forma) financial information sitting side by side in the same or adjacent tables for multiple periods. None of the supplementary reconciliation tables in the financial information section, nor individual financial statement line items and key metrics, are included in the scope (and consequently conclusion) of the assurance report issued by the assurance practitioner.</p>	

¹ Refer ISAE (NZ) 3000 (Revised), para 24

<p>In contrast, in New Zealand there is a standalone set of prospective financial information prepared in accordance with Financial Reporting Standard 42 <i>Prospective Financial Statements</i>, which include primary statements as well as assumptions and notes to the prospective financial statements. The issuer may then disclose in the offer document selected historical, pro forma historical, prospective and pro forma prospective financial information presented in tabular form representing individual financial statement line items as well as non-GAAP key metrics such as revenue, EBITDA and associated reconciliations, net profit after tax/ (loss after tax), net cash flows from operating activities, total assets, cash and cash equivalents, total liabilities, total debt and total debt including leases. These individual line items are ordinarily extracted or derived from the published prospective financial statements, annual and/ or interim financial reports but do not represent "full" primary statements. Each individual financial statement line item or non-GAAP measure on its own, in our view, does not meet the recognition and measurement requirements of an acceptable accounting framework, except perhaps to the extent that they meet the requirements of Financial Reporting Standard 43 <i>Summary Financial Statements</i> ("FRS 43"). We note however that the requirements of FRS 43 differ from the disclosure requirements under the Financial Markets Conduct Regulations and do not consider non-GAAP or pro forma financial information.</p>	
<p>Given these differences in financial information disclosure between Australia and NZ, and noting that many NZ offers/ listings are made in both jurisdictions, it would be beneficial to have consistency in the stated basis of preparation in the Proposed Standard for historical, pro forma historical and pro forma prospective financial information. This allows the basis of preparation for such financial information to be more aligned to Australian market practice in that it is prepared and/ or presented in accordance with an acceptable accounting framework which can be supplemented by disclosure of individual financial statement line items, non-GAAP measures and reconciliations which are relevant in the NZ market. We believe this approach will also facilitate consistency in the assurance being provided on the historical, pro forma historical and pro forma prospective financial information between the two jurisdictions. We recommend that the XRB reassess the nature and scope of the assurance being proposed on the financial information disclosed in light of the intricacies of the Australian and NZ market disclosures.</p>	<p>The assurance standard does not specify the stated basis of preparation of the financial information. The preparer determines the appropriate basis of preparation. The role of the AP is to assess the suitability of the stated basis of preparation.</p> <p>This represents a difference in view among practitioners in NZ. The ISAs (NZ) allow for reasonable assurance on specific elements, accounts or items of a financial statement. It seems inconsistent with the ISAs (NZ) if the same cannot also be performed as a limited assurance engagement.</p> <p>In NZ the assurance engagement is voluntary. The scope is negotiated between the engaging party and the assurance practitioner.</p>
<p>We also note that complimentary to the assurance report issued and included in the Offer Register, it is customary for the practitioner to provide a due diligence report to the responsible party (the Directors of the IPO/transaction vehicle and typically also a Due Diligence Committee) in respect of its review of financial information and financial (and tax) due diligence undertaken. We think the broader aspects of financial information which are non-GAAP and not included in an assurance report are legitimate subjects for the practitioner to perform due diligence upon and to separately report and agree terms of reference in relation to.</p>	<p>A due diligence engagement is not an assurance engagement and is therefore outside the scope of this standard, and outside the mandate of the XRB.</p> <p>We agree that there might be financial information, outside the scope of the assurance engagement, that the engaging party may want the assurance practitioner to perform due diligence procedures on. Such an engagement is outside the scope of this project.</p>

Appendix 1	
<p>1. Do you agree with the scoping of the proposed SAE as described in paragraph 10 of this ITC? If not, please explain why not.</p> <ul style="list-style-type: none"> ▶ No. Whilst the proposed SAE has an intentionally narrow scope in terms of the types of capital raisings and transactions it may apply to, we believe that the principles of the proposed SAE can also be applied to financial information which may be prepared but not necessarily published for similar capital raising transactions. ▶ The proposed SAE could for example be used for the purpose of providing private limited assurance reports on financial information to the directors of the entity and as such, we believe the Proposed Standard can have an expanded scoping. 	<p>The decision to narrowly scope the draft standard was a deliberate response by the Board. We do not intend to broaden the scope of the standard. However, para 2 of the draft standard has been revised to state that the standard may be applied, adapted as necessary, for assurance engagements over financial information prepared for another purpose, e.g., in connection with a direct listing, or for assurance over prospective financial information prepared for another purpose.</p>
<p>2. Do you agree that the assurance practitioner should provide a limited assurance conclusion only on the types of financial information covered by the assurance report? If not, please explain why not.</p> <ul style="list-style-type: none"> ▶ Yes, we agree that the assurance practitioner should provide a limited assurance conclusion only on the types of financial information covered by the assurance report. ▶ However, we do see a concern with elements of the illustrative assurance report in Appendix 3, see our cover letter for further comments on this. 	<p>Support noted.</p> <p>The illustrative report was developed based on NZ practical examples and is consistent with examples from multiple firms, including EY.</p> <p>An additional illustrative report has been included in appendix 3. Refer issues paper 6.2 section A.</p>
<p>3. Do you agree that the proposed SAE should not include, as a precondition for engagement acceptance, that the assurance practitioner is also the auditor of the entity, if assurance is sought over historical financial information? If not, please explain why not.</p> <ul style="list-style-type: none"> ▶ Yes, we agree that being an auditor of the entity should not be a precondition for engagement acceptance regardless of whether assurance is sought over historical financial information. 	<p>Support noted</p>
<p>4. Is the interrelationship between the proposed SAE and the relevant review engagement standards, for assurance over the historical financial information, clear? If not, please explain why not and provide suggestions on how this could be clearer.</p> <ul style="list-style-type: none"> ▶ The interrelationship between the proposed SAE and the relevant review engagement standards is clear at the start of the proposed SAE (i.e. paragraphs 1 to 11) however we believe that this clarity may potentially be lost as you read through the rest of the proposed SAE. <p>As an example, agreeing the terms of the engagement and planning and performing the engagement (paragraphs 15 to 17) all refer to requirements being "... in accordance with ISAE (NZ) 3000 (Revised) and Review Engagements Standards, as applicable ...". This implies that these are not requirements of the proposed SAE but come about because of the interrelationship with these standards which is not appropriate in our view. These paragraphs should first and foremost describe the specific requirements of the Proposed Standard and then where applicable, demonstrate the interrelationship in application and other explanatory material given the relationship with other standards has already been covered upfront in paragraph 5 of the Proposed Standard.</p>	<p>ISAE (NZ) 3000 (Revised)/applicable review engagements standards are umbrella standards that apply to the engagement. The proposed standard is subject matter specific and builds on the requirements of the umbrella standard. The engagement cannot be performed by complying only with the subject matter standard.</p> <p>Construct of paragraphs 13, 15, 17 has been revised.</p>

<p>5. Is paragraph A11 sufficiently clear as to the difficulties the assurance practitioner might encounter when assurance is sought over historical financial information and the assurance practitioner is not also the auditor of the entity? If not, please explain why not and provide further examples.</p> <ul style="list-style-type: none"> ▶ In our view paragraph 11 has acknowledged that there may issues where the assurance practitioner is not the auditor of the historical financial information, but this may be of limited benefit as it has not provided clarity to the assurance practitioner on how to go about managing these difficulties. ▶ Paragraph 11 has simply stated the obvious in terms of a list of matters to consider without guidance as to how to determine what additional procedures may be required by the assurance practitioner - this may need to be cross referenced to application and other explanatory material later in the Proposed Standard which may be useful in navigating these challenges. ▶ We believe it would be helpful to further outline considerations where the historical financial information has been subject to audit by another practitioner including the nature of procedures to be undertaken and the materiality level applied, in determining the requirement for further assurance procedures. 	<p>The objective of para A11 is to highlight the difficulties that the assurance practitioner might encounter when not also the auditor of the entity if assurance over historical financial information is requested.</p> <p>The AP must use their judgement to determine whether they can obtain sufficient appropriate evidence to provide assurance over the historical financial information and what additional procedures might be necessary.</p> <p>No substantive changes made, however para A11 has been redrafted to make it easier to read.</p> <p>We have reached out to EY to indicate that we would welcome suggested wording to include in the final standard. No further response received in this regard.</p>
<p>6. Do you agree with the proposal to include the name of the lead assurance practitioner in the assurance report? If not, please explain why not.</p> <ul style="list-style-type: none"> ▶ In our view, the requirement for the lead assurance practitioner to be named should be consistent with the requirement in NZ ISA (700) Revised in relation to the audit report on the financial statements, ie if the entity is or will become a FMC entity with Higher Accountability then the assurance practitioner should be named. 	<p>Support noted. Intended scope is for public offerings.</p>
<p>7. In your view, are the required procedures consistent with a limited assurance engagement? If not, please identify the requirements and explain why, in your opinion they are not consistent with a limited assurance engagement.</p> <ul style="list-style-type: none"> ▶ Overall, we agree that the required procedures are largely consistent with a limited assurance engagement. ▶ In respect of prospective financial information, the required procedures outlined in paragraphs 32, 34, 36 and 37 appear long and in some cases, repetitive. Similar procedures are being described multiple times for assumptions, time periods and stated basis of preparation. We recommend that the procedures could be streamlined further in respect of prospective financial information. ▶ Similarly, the guidance on pro forma historical and pro forma prospective financial information could also easily be dealt with a cross reference and the guidance on whether the base financial information has previously been subject to audit or review and differing stated basis of preparation from current vs base financial information has been covered multiple times across different paragraphs. 	<p>Comments noted.</p> <p>We recognise that there is repetition. Paragraphs 32, 34, 36 and 37 are consistent with the ASAE.</p> <p>In NZ assurance is voluntarily sought on the financial information. The AP and the engaging party agree the financial information to be covered by the assurance conclusion. Aim is for the AP to pick up the standard and identify the parts that apply. If the engagement does not include all the elements, the AP will be referring to other section in the standard frequently. Cross-referencing reduces the readability of the standard.</p> <p>No substantive changes made.</p>

<p>8. In your view, are there any other procedures that should be required? Please describe the procedures and why, in your view, those procedures should be required.</p> <ul style="list-style-type: none"> ▶ In paragraph 17, recommend that a procedure be included for “assessing assurance engagement risk” for consistency with ASAE 3450. ▶ In paragraphs in 20-23, recommend that consideration of the nature of the entity and the environment it operates in is included as this is pertinent to the assessment of engagement risk. ▶ In paragraph 23, recommend that the type of offer document in which the financial information will be included or published as part of be considered as well. ▶ In paragraph 23(h), recommend that after the competence of the preparers of the financial information, state “including the extent to which the financial information may be affected by judgement.” 	<ul style="list-style-type: none"> • Added requirement to assess engagement risk at para 17(e) • Nature of the entity – new paragraph 20 to address circumstances where the AP does not have prior knowledge of the entity • Added 23(a) to include the form in which the financial information will be published. • 23(h) Para A31 deals with the extent to which the FI may be affected by the responsible party’s judgements. The extent to which the FI may be affected by judgement does not specifically relate to the competence of the preparers. This change has not been made.
<p>9. Do you agree with the proposed effective date for engagements commencing on or after 15 December 2023, with early adoption permitted? If not, please explain why not.</p> <ul style="list-style-type: none"> ▶ Yes, we consider the proposed effective date and permissibility of early adoption to be appropriate subject to the matters raised herein being sufficiently addressed with further updates to the proposed SAE in advance of issuance. ▶ We don’t believe an additional 12 months is required for implementation once the Proposed Standard is issued given to a large extent the principles covered in the Proposed Standard are already being applied in the market, with significant reliance on ASAE 3450. 	<p>Noted.</p>

Appendix 2 – Further Detailed Comments on the Proposed Standard			
9	Objectives	Recommend that the requirement in 9(c) is made consistent with ASAE 3450 - “to communicate in accordance with the assurance practitioner’s findings as otherwise required by this SAE.”	Changed.
10	Definitions	Recommend that the Proposed Standard definitions are consistent with ASAE 3450, specifically in respect of assumptions, base financial information, pro forma adjustments and stated basis of preparation. The context of who provides or determines these items should also be specified as part of the definition, i.e. the responsible party. This is particularly important given the definition of responsible party appears to be more limited than ASAE 3450.	<p>Definition of assumptions based on FRS 42, paras 18-19</p> <p>Pro forma adjustments – minor editorial changes to the ASAE definition to respond to Board request to clarify what it means to be adjusted for pro forma adjustments per ASAE definition. Aligns more closely with definition in ISAE (NZ) 3420</p> <p>Prospective financial information – Based on the definition of GP prospective financial statements in FRS 42. ASAE definition is not consistent with FRS 42.</p> <p>Stated basis of preparation – first sentence is the same. Examples of stated bases of preparation included in para A8</p>
<p>The definition of prospective financial information appears odd in that it states that external users are not able to require it or contract for the preparation of special reports to meet their specific information needs. There is no legal or regulatory requirement to prepare prospective financial information which in our view should be included only by the responsible party where the directors believe that there are reasonable and supportable grounds to include it in order for investors to make an informed decision regarding their potential investment. The definition linking it to a requirement or contractual obligation by external users does not make sense in light of the circumstances under which it may be prepared and published by an issuer.</p>			<p>The definition of prospective financial information is based on the definition of general purpose prospective financial statements in FRS 42.</p>
Definitions	<p>The terms “base historical financial information” and “base financial information” have been used throughout the Proposed Standard however a definition is only included for the latter.</p>		<p>Definition of base historical financial information added. See para 10(d), although we note that the definition of base financial information (para 10(c)) indicates that it is ordinarily historical in nature.</p>

<p>Agreeing the Terms of the Engagement</p>	<p>Recommend this includes a responsibly for determining the applicable time period of the financial information as part of 15(d).</p>	<p>Already required in the draft standard. See para 15(c) which refers to para 13. Precondition of the engagement is that the responsible party acknowledge responsibility for preparation of the financial information. including the selection of the applicable time period to be covered by the financial information.</p>	
<p>15-17, 48</p>	<p>Agreeing the Terms of the Engagement Planning and Performing the Engagement Forming the Assurance Conclusion</p>	<p>Refer to requirements being "... in accordance with ISAE (NZ) 3000 (Revised) and Review Engagement Standards, as applicable ...". This implies that these are not requirements of the proposed SAE but come about because of the interrelationship with these standards which is not appropriate in our view. These paragraphs should first and foremost describe the requirements of the proposed SAE and then where applicable, demonstrate the interrelationship in application and other explanatory material noting that the relationship with other standards has already been covered upfront in paragraphs 5 to 6 of the Proposed Standard.</p>	<p>Revised intro phrase used to better link with 3000 and applicable review engagement standard.</p>
<p>20-23</p>	<p>Understanding the source and basis of preparation of the Financial Information and Other Engagement Circumstances</p>	<p>Recommend we include consideration of the nature of the entity and the environment it operates in as part of the requirements.</p>	<p>Added as a requirement where the assurance practitioner does not have prior knowledge of the entity. See new Para 20 and A29.</p>
<p>32</p>	<p>Prospective financial information</p>	<p>The use of the words "extracted" in relation to prospective financial information does not seem logical as the responsible party "prepares" the prospective financial information on the basis of best-estimate assumptions. Prospective financial information is not able to be extracted from an appropriate source in the same way that historical financial information may be "extracted" from previously audited or reviewed financial statements.</p>	<p>Amended para 33 to focus on the purpose of procedure, i.e., to obtain evidence about the source of the financial information</p>

24, 26, 31, 38	Pro Forma Historical Financial Information Pro Forma Historical Prospective Financial Information	Need to ensure that the language used to describe procedures and the procedures themselves are consistent in principle for both pro forma historical and pro forma prospective financial information. This is important given the basis for designing and executing the procedures for both are similar in that pro forma adjustments are based on a set of events and/ or transactions determined by the responsible party. This consistency is important to establish in the Proposed Standard as in principle the interpretation and execution of procedures by the assurance practitioner should be the same in this case.	The requirements are consistent with ASAE 3450, and considered to be appropriate to the subject matter, i.e., historical financial information, and prospective financial information.
42	Written Representations - Prospective financial information	Recommend that the responsible party also acknowledge their responsibility for determining the best-estimate assumptions on which the prospective financial information is based and that the assumptions are reasonable and supportable.	Added, refer para 43(a)
46-47	Going concern considerations	We recommend that this requirement be specifically extended to address that an assessment is also made of whether going concern is an issue assuming the capital raising is successful. We note that in the application and other explanatory material in paragraph A65 there is an implication that the going concern assumption ordinarily applies for historical financial information only however in our view, going concern should be considered in light of the capital raising overall as well.	Refer new para A67, from ASAE 3450 pA53.
51(o)	Consent to the inclusion of the assurance report	A separate section on consent is included in the Independent Limited Assurance Report. Market practice is for the assurance practitioner to issue a separate consent letter to the entity. We do not believe that a consent section is appropriate in the assurance report and we recommend it be removed. It is circular to state that consent has been provided in the assurance report and then provide a separate consent letter in itself. The assurance practitioner should be consenting separately to inclusion of the assurance report.	Revised to read, “if applicable, a consent statement”, which is consistent with the ASAE
A4	Definitions	In our view, the assurance report may also be referred to as an Independent Limited Assurance Report as well as an Investigating Accountant's Report.	Para A4 revised to refer also to independent limited assurance report.
A28	Understanding the Source and Basis of Preparation of the Financial Information and Other Engagement Circumstances	Introduces for the first time a concept of “suitability of criteria” in the 2 nd bullet point which in our view is not relevant in the Proposed Standard. The assessment should be against the stated basis of preparation only which is consistent with the requirements of the Proposed Standard.	Changed suitability of criteria to suitability of basis of preparation. The basis of preparation is the criteria.
A29	Understanding the Source and Basis of Preparation of the Financial Information and Other Engagement Circumstances	The concept of “subject matter information” and reference to sustainability report in this paragraph does not make sense and is considered inappropriate given the scope of the Proposed Standard is only in respect of assurance over financial information in connection with a capital raising.	Para A29 has been deleted as was not particularly relevant to the capital raising engagement.

A36	Pro Forma Financial Information	<p>In the 3rd bullet point, there is a reference to stated basis of preparation being an entity's accounting policies. In our view, this is a very narrow interpretation of what a stated basis of preparation may represent and does not take into consideration what an acceptable accounting framework is in the context of published financial information. We recommend, consistent to our earlier comment, that the definition of a stated basis of preparation be expanded to provide illustrative examples of what is an acceptable accounting framework both from a regulatory and market practice perspective.</p> <p>We also recommend that reference is included to assessing the materiality level applied in relation to the audit or review of the historical financial statements as compared to the materiality level assessed for the purposes of the limited assurance engagement.</p>	<p>No change. This wording is consistent with ASAE 3450, para A80.</p> <p>Added materiality consideration guidance. Refer para A36</p>
Appendix 1, 2 and 3	Illustrative Engagement Letter, Representation Letter and Assurance Report	<p>The scope and consequently, the conclusion on, the historical financial information, pro forma historical financial information and pro forma prospective financial information on which assurance is being provided differs to ASAE 3450 as it implies that non-GAAP information is covered by the opinion which we do not consider appropriate. For example, in respect of prospective financial information, the scope and conclusion with regard to the EBITDA reconciliation and selected financial information included in the offer document is non-GAAP and therefore not appropriate (refer also to comments in respect of due diligence reporting in our cover letter).</p> <p>In Australia, only a set of financial information that has been prepared under an acceptable, accounting framework such as IFRS and which reflect primary statements like an income statement, balance sheet or cash flow statement qualify as an appropriate, stated basis of preparation. Individual line items, non-GAAP measures and reconciliations are considered supplemental disclosures and are not covered by the assurance report.</p> <p>We believe that the XRB should give further consideration to the scope and conclusion statements for the historical, pro forma historical, prospective and pro forma prospective financial information illustrated in these Appendices having regard to the above matters. As outlined in our earlier comments, we believe that the XRB may wish to align the stated basis of preparation, and consequently the assurance given, between Australia and NZ market practices.</p>	<p>We consider Non-GAAP measures are appropriately addressed in the report. There are no prescribed assurance requirements for IPOs in New Zealand and firms and clients therefore negotiate which parts will be assured and which parts not. It has been long standing practice in New Zealand to only include specific elements of historical financial information in the PDS and to restrict the limited assurance provided as part of this engagement to those elements. There is nothing prohibiting providing assurance on elements of financial statements, specific account balances or other historical financial information; the standards actually specifically allow for it (e.g. ISA (NZ) 805 Revised deals with audits of single financial statements, and specific elements, accounts or items of financial statements).</p>

	<p>However, we have added a second illustrative report which includes as engagement circumstances, the review of the full set of financial information. The illustrative engagement and representation letters have been deleted.</p>
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Appendix 3 – General Editorial Comments on the Proposed Standard

10 (f) and (g)	Definitions	Recommend consistency checks be performed on the Proposed Standard, for example 10(f) refers to generally accepted accounting principles whilst 10(g) refers to NZ generally accepted accounting practice.	changed
12	Requirements	The assurance practitioner shall not represent compliance with this SAE unless the assurance practitioner has complied with the requirements of both this SAE, and ISAE (NZ) 3000 (Revised) and/or Review Engagement Standards, as applicable.	No change. It is intended to mean this SAE and ISAE (NZ) 3000 or this SAE and the applicable review engagement standard. The combination of standards that apply depend on the financial information being assured.
13	Preconditions for the Assurance Engagement	In addition to the requirements of ... (a) the preparation of the financial information in accordance with the stated basis of preparation, including the selection of the financial information and determining the applicable time to be covered by the financial information ...	Changed
14	Preconditions for the Assurance Engagement - Prospective Financial Information	Reference to paragraph 12 within should be changed to paragraph 13. 14(b) faithfully represent the assumptions and information on which the prospective financial information is based. The same edit is recommended in paragraph A3.	changed
17	Planning	Remove full stop after the words “as applicable” in the opening sentence.	Changed

26	Pro Forma Prospective Financial Information	<p>Reference to paragraph 23 within should be changed to paragraphs 23 and 25.</p> <p>26(a) states that consideration be made of whether the base financial information has been previously audited or reviewed - this should be removed or at a minimum remove reference to "audited" as the base used to prepare pro forma prospective information would typically be prospective financial information which would never have been previously audited (and rarely reviewed previously).</p> <p>26(d) should state that "any recent changes in the entity's business activities and how they affect the pro forma prospective financial information."</p>	<p>Changed</p> <p>No change – consistent with the same requirement in ASAE 3450</p> <p>Changed</p>
30(a)(ii)	Designing and Performing Procedures	Reference to "unaudited or unreviewed" - recommend this be changed to "audited or reviewed annual or interim financial report respectively" given this arises where there is an annual or interim financial report.	No change. Prefaced with "if applicable". Requirement as drafted is consistent with the ASAE.
30(c)(iv)	Designing and Performing Procedures	If any part of the financial information has been previously audited or reviewed, that it agrees to those audited or reviewed records financial statements .	Wording is consistent with ASAE. Might apply to something that is not financial statements, eg a schedule
"31"	Pro forma historical financial information	Numbering in the Proposed Standard currently states "10" but this paragraph appears to be "31".	Numbering corrected
31(e)	Pro forma historical financial information	Determining whether the resultant pro forma historical financial information reflects the results of the applying the pro forma adjustments to the base financial information.	Changed
32(a)	Prospective financial information	Make inquiries of the responsible party, experts and relevant parties on the nature of the and source of the prospective financial information.	No change. Wording is consistent with the ASAE.
43	Written Representations - Pro forma prospective financial information	Reference to paragraph 40 within should be changed to paragraphs 40 and 42.	References changed
51(a)	Preparing the Assurance Report - Assurance Report Content	A title that clearly indicates the report is an independent limited assurance report.	Changed

51(f)	Preparing the Assurance Report - Assurance Report Content	If the stated basis of preparation-assurance report is available only to specific users, or is relevant only to a specific purpose, ...	No change. This requirement is about the criteria upon which the financial information is prepared being available for users.
A5	Definitions	Base financial information may not or may not have been previously audited or reviewed.	changed
A9	Preconditions for the Assurance Engagement	... The only exception to this is respect of reports by other parties, including experts, which are included, by consent, in the published financial information offer document .	No change. Published financial information is the defined term.
A15	Pro Forma Financial Information	In the 3 rd bullet point, "There is insufficient time to -in which to conduct the engagement to enable the expression of assurance on the pro forma historical financial information itself."	Changed
A37	Pro Forma Financial Information	There is a reference to ISAE (NZ) but the number and title of the specific auditing standard that it's referring to is missing.	Added
A43	Prospective Financial Information	Change "extracted" to "derived" as this may better represent the source of the financial information in this case. In several other paragraphs, in our view "extracted and/ or derived" may be appropriate to add instead of "extracted" only given in some case it's not always be possible to easily extract the financial information from the base financial information.	No change. Use of extracted is consistent with the ASAE.
A54	Prospective Financial Information	Reference to 33(b)(v) should be changed to 34(b)(v).	Reference corrected
A75	Consent	In the first sentence "audit" report should be changed to "assurance" report.	Changed, now para A78
Appendix 1	Illustrative Engagement Letter	In the first paragraph, change "confirms" to "confirm" and "proposed published financial information" to "proposed published offer document" (noting examples given for the latter are PDS or online Registry Entry). There is a reference to paragraphs "a to d" in section 1, titled "Financial information" but there are no such listed paragraphs in the body of the letter.	Illustrative engagement letter and illustrative representation letter deleted. This is to allow for a second reporting example without impacting the length of the standard

<p>In some places, the tense used in the letter may need to be reassessed given these are proposed scope of services and procedures have not yet been completed for example, use of “consider” rather than “considered” and “will not express an audit opinion” instead of “do not express an audit opinion” (both on page 55).</p>			
Appendix 1	Illustrative Engagement Letter	<p>Page 56, reference to “our assurance reports” should be changed to “our independent limited assurance report”.</p> <p>Under the “Written Representations” section (page 56) - the first paragraph refers to “our review and limited assurance engagements”, these are not two separate procedures and/ or engagements, the limited assurance engagement is the review of the Financial Information itself. Also, on page 57 the second paragraph refers to both “our Investigating Accountant’s Report and limited assurance report on the Financial Information” which is in fact the same report.</p> <p>Under the “Consent” section, use of Independent Limited Assurance Report vs. Investigating Accountant’s Report above - recommend that the report name is consistent throughout the letter.</p>	<p>Illustrative engagement letter and illustrative representation letter deleted. This is to allow for a second reporting example without impacting the length of the standard</p>
Appendix 2	Illustrative Representation Letter	<p>Consistent to our comment on Appendix 1, the reference to “published financial information” throughout the letter should be to “published offer document” (noting examples given are for PDS or online Registry Entry).</p> <p>On page 60, the 7th bullet refers to the provision of material financial information, financial records, related data and other information with respect to historical and pro forma historical financial information only however this should apply to all financial information under review, i.e. including prospective financial information.</p>	<p>Illustrative engagement letter and illustrative representation letter deleted. This is to allow for a second reporting example without impacting the length of the standard</p>

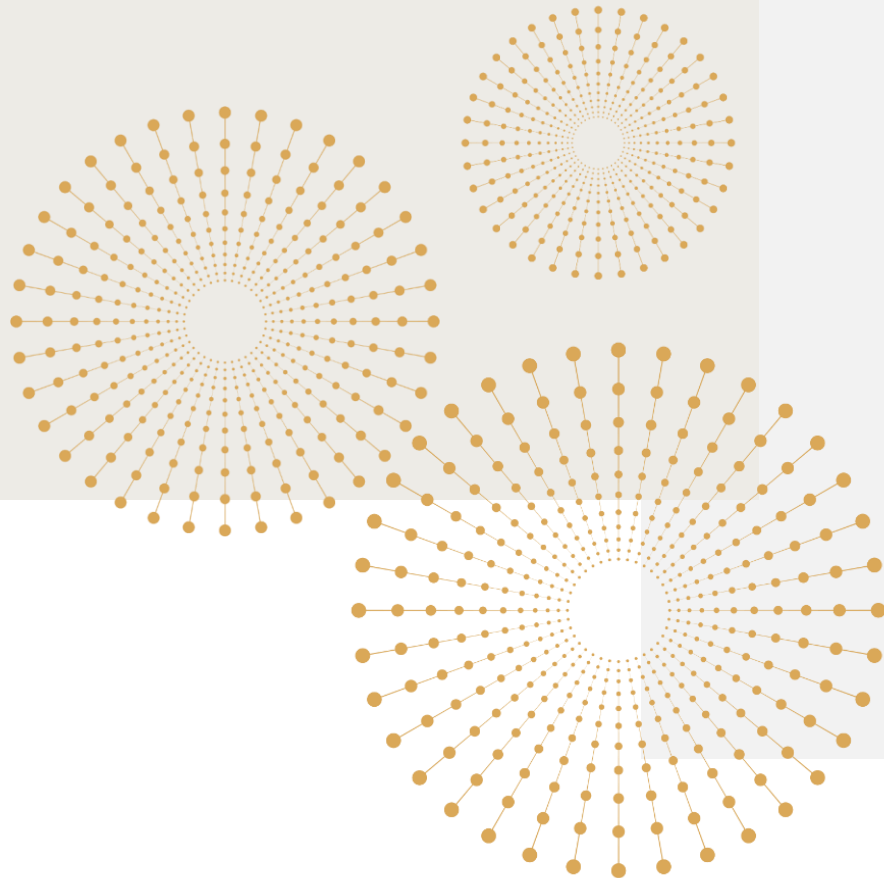
<p>Appendix 3</p>	<p>Illustrative Assurance Report</p>	<p>Recommend the title be changed to “Investigating Accountant’s Independent Limited Assurance Report” or simply “Independent Limited Assurance Report”.</p> <p>Page 65, the title “information subject to assurance” would be better titled as “Limited assurance scope” or “Scope of Financial Information under review”.</p> <p>Page 69, under “Disclaimer”, the word “use” should be changed to “us” in the second last line.</p> <p>We recommend that the sections on “Our Responsibility” and “Our Limited Assurance Engagement” be combined together given the content is related and can be merged.</p>	<p>Changed</p> <p>No change</p> <p>Changed</p> <p>No change.</p>
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Standard on Assurance Engagements 3450

Assurance Over Financial Information Prepared in Connection with a Capital Raising

Applies to assurance engagements
commencing on or after 15 December 2023



Issued [date]





STANDARD ON ASSURANCE ENGAGEMENTS 3450

Assurance Over Financial Information Prepared in Connection with a Capital Raising (SAE 3450)

This Standard was issued on [date] by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [date +28].

An assurance practitioner that is required to apply this Standard is required to apply it for assurance engagements commencing on or after 15 December 2023. [Early adoption is permitted on a voluntary basis.](#)

In finalising this Standard, the New Zealand Auditing and Assurance Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

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History of Amendments

Table of pronouncements – SAE 3450 Assurance Over Financial Information Prepared in Connection with a Capital Raising

This table lists the pronouncements establishing and amending SAE 3450.

Pronouncements	Date approved	Effective <u>Application</u> date
SAE 3450 <i>Assurance Over Financial Information Prepared in Connection with a Capital Raising</i>	[Date]	This Standard on Assurance Engagements is effective <u>applies to</u> for assurance engagements commencing on or after 15 December 2023.

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STANDARD ON ASSURANCE ENGAGEMENTS 3450

**ASSURANCE OVER FINANCIAL INFORMATION PREPARED IN CONNECTION WITH A CAPITAL
RAISING**

Issued by the New Zealand Auditing and Assurance Standards Board

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Standard on Assurance Engagements (SAE) 3450 (Revised), Assurance Over Financial Information Prepared in Connection with a Capital Raising should be read in conjunction with International Standard on Assurance Engagements (New Zealand) (ISAE (NZ)) 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information and the applicable Review Engagement Standards.

Introduction

Scope

1. This Standard on Assurance Engagements (SAE) deals with the responsibilities of the assurance practitioner when performing an assurance engagement and reporting on the responsible party's preparation of published financial information prepared in connection with a capital raising.
2. This SAE applies to assurance engagements to provide a limited assurance report on the financial information. It may be applied, adapted as necessary, for assurance engagements over financial information prepared for another purpose, for example, in connection with a direct listing, or for assurance over prospective financial information prepared for any other purpose. (Ref: Para. A1)
3. The types of financial information covered by this SAE are:
 - Historical,
 - Pro forma historical,
 - Prospective and
 - Pro forma prospectivefinancial information prepared in respect of a capital raising. The financial information may be in respect of one entity or multiple entities (for example, in the case of a merger or acquisition).
4. Assurance engagements covered by this SAE often involve the assurance practitioner performing an assurance engagement, and reporting, on more than one type of financial information. In such circumstances, the assurance practitioner conducts the engagement in accordance with the applicable requirements and related application and other explanatory material and reports the assurance conclusion for each type of financial information in the assurance report. Non-assurance services are outside the scope of this engagement. (Ref: Para. A2)

Commented [SW1]: Refer agenda item 6.2, section E.

Relationship with Other Standards issued by the NZAuASB

5. Assurance engagements other than audits or reviews of historical financial information are conducted in accordance with ISAE (NZ) 3000 (Revised)¹. Assurance engagements that are reviews of historical financial information are conducted in accordance with the applicable Review Engagement Standards. This SAE deals with specific considerations in the application of ISAE (NZ) 3000 (Revised) and the applicable Review Engagement Standards² to engagements dealing with assurance over financial information prepared in connection with a capital raising.
6. The assurance practitioner is required to comply with ISAE (NZ) 3000 (Revised) and the applicable Review Engagement Standards, ~~as applicable~~, and this SAE when

Commented [SW2]: Refer agenda item 6.5, section C
Added footnote in response to KPMG comment that paras 5-7 could be clearer as to the meaning of applicable review engagement standards.

¹ International Standard on Assurance Engagements (New Zealand) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

² As described in paragraph 11, in this SAE, the applicable "Review Engagement Standard" refers to International Standard on Review Engagements (New Zealand) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity*, or New Zealand Standard on Review Engagements 2410 (Revised), *Review of Financial Statements Performed by the Independent Auditor of the Entity*, as applicable for the circumstances of the engagement.

performing an assurance engagement to report on published financial information prepared in connection with a capital raising. This SAE supplements but does not replace ISAE (NZ) 3000 (Revised) or the applicable Review Engagement Standard.

7. Compliance with ISAE (NZ) 3000 (Revised) and the applicable Review Engagement Standard~~s~~ requires, among other things, compliance with the provisions of Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))*³ issued by the New Zealand Auditing and Assurance Standards Board related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation that are at least as demanding.⁴ It also requires the lead assurance practitioner to be a member of a firm that applies Professional and Ethical Standard 3⁵, or other professional requirements, or requirements in law or regulation, that are at least as demanding as Professional and Ethical Standard 3.⁶

Effective Application Date

8. This SAE ~~is effective~~shall apply for engagements commencing on or after 15 December 2023. Early adoption is permitted on a voluntary basis.

Objectives

9. The objectives of the assurance practitioner are:
 - (a) To obtain limited assurance about whether the financial information is free from material misstatement, thereby enabling the assurance practitioner to express a limited assurance conclusion;
 - (b) To report, in accordance with the assurance practitioner's findings; and
 - (c) To communicate further as ~~otherwise~~ required by this SAE, in accordance with the assurance practitioner's findings.

Definitions⁷

10. For purposes of this SAE, the following terms have the meanings attributed below:
 - (a) Assumption – ~~a~~ view taken by the responsible party about the future for the purpose of preparing prospective financial information, for example views about economic and business conditions and proposed courses of action. (Ref: Para. A3)
 - (b) Assurance report – ~~a~~ written report prepared by an independent assurance practitioner. (Ref: Para. A4)
 - (c) Base financial information – ~~F~~financial information that is used as the starting point for the application of the pro forma adjustments. Base financial information

³ In Professional and Ethical Standard 1, the term "engagement partner" ~~should may~~is to be read as referring to "lead assurance practitioner".

⁴ ISAE (NZ) 3000 (Revised), paragraph 3(a), 20 and 34

⁵ Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

⁶ ISAE (NZ) 3000 (Revised), paragraphs 3(b) and 31(a)

⁷ Terms defined in ISAE (NZ) 3000 (Revised) are not repeated in this SAE. ~~Refer and reference should be made to the definitions in~~ ISAE (NZ) 3000 (Revised) for terms defined therein for those terms~~their definitions~~.

Agenda item 6.7

is ordinarily historical in nature, however, it can also be prospective. (Ref: Para. A5)

- (d) Base historical financial information – Base financial information that is historical in nature.
- (e) Capital raising – Any transaction involving debt securities, equity securities, managed investment products or derivatives as defined by the Financial Markets Conduct Act 2013 undertaken to effect a transaction through the issuance of published financial information in accordance with the Financial Markets Conduct Regulations 2014. (Ref: Para. A6)
- (f) Financial information – Information of a financial nature prepared by the responsible party in the form of:
 - (i) Historical financial information;
 - (ii) Pro forma historical financial information;
 - (iii) Prospective financial information; or
 - (iv) Pro forma prospective financial information.
- (g) Pro forma adjustments – Addjustments to the base financial information to:
 - (i) Illustrate the impact of a transaction or event as if the event had occurred or the transaction had been undertaken at an earlier date than actually occurred or as if it had not occurred at all;
 - (ii) Eliminate the effects of unusual or non-recurring events or transactions that are not part of the normal operations of the entity; or
 - (iii) Exclude certain events or transactions or present transactions or balances on a different recognition or measurement basis from that required or permitted by generally accepted accounting principles practice in New Zealand.
- (h) Pro forma financial information – Base financial information shown together with pro forma adjustments prepared in accordance with the stated basis of preparation resulting in financial information that is not prepared in accordance with New Zealand generally accepted accounting practice in New Zealand. It is subject to the assumptions inherent in the responsible party's stated basis of preparation.
- (i) Prospective financial information⁸ – Future oriented financial information prepared for external users who are unable to require, or contract for, the preparation of special reports to meet their specific information needs. Prospective financial information is based on assumptions made by the responsible party about events that may occur in the future and possible actions by the entity. (Ref: Para. A7)
- (j) Published financial information - Financial information prepared for the purpose of the capital raising and that is made available publicly, for example, the product disclosure statement and online register entry.

Commented [SW3]: Added in response to EY comment that base HFI is used throughout the proposed standard but is not defined. Does the Board support inclusion of this definition? The definition of base financial information (refer para 10(c)) states that base financial information is ordinarily historical in nature.

Commented [SW4]: Refer agenda item 6.5 section E (para 33) Added footnote to address concern that for capital raisings in NZ where the HFI is prepared under NZ equivalents to IFRS, prospective FS are required to be prepared in accordance with FRS 42.

⁸ For capital raisings where the historical financial statements are prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards, any prospective financial statements (or other prospective financial information) is prepared in accordance with Financial Reporting Standard No. 42 Prospective Financial Statements.

- (k) Responsible party – The party(ies) responsible for the source and basis of preparation of the financial information and other engagement circumstances.
 - (l) Stated basis of preparation – ~~T~~he basis on which the responsible party has chosen to prepare the financial information that is acceptable in view of the nature and objective of the published financial information, or as required by applicable law or regulation. (Ref: Para. A8)
11. In this SAE, the applicable Review Engagement Standards ~~refer~~refers to International Standard on Review Engagements (New Zealand) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity*, ~~and or~~ New Zealand Standard on Review Engagements 2410 (Revised), *Review of Financial Statements Performed by the Independent Auditor of the Entity*, as applicable for the circumstances of the engagement.

Requirements

Compliance with this SAE

12. The assurance practitioner shall not represent compliance with this SAE unless the assurance practitioner has complied with the requirements of both this SAE and ISAE (NZ) 3000 (Revised) and the applicable Review Engagement Standards, ~~as applicable~~.

Preconditions for the Assurance Engagement

13. ~~When establishing whether the preconditions for an assurance engagement are present, as required by~~ In addition to the requirements of ISAE (NZ) 3000 (Revised)⁹ and the applicable Review Engagement Standards, as applicable, in order to establish whether the preconditions for the engagement are present, the assurance practitioner shall obtain the agreement of the responsible party that they acknowledge and understand their responsibility for: (Ref: Para. A89-A156)
- (a) The selection of the financial information.
 - (b) The preparation of the financial information in accordance with the stated basis of preparation.
- ~~(a)(c), including the selection of the financial information and the Determining the applicable time period to be covered by the financial information. (ref: A12-A13)~~
- ~~(b)(d) M~~aintaining adequate accounting records and such internal control as is determined to be necessary to enable the preparation of financial information that is free from material misstatement.

Prospective Financial Information

14. In an engagement to provide assurance over prospective financial information, the acknowledgement obtained in accordance with paragraph 12~~3~~ shall include acknowledgement from the responsible party that the prospective financial information:
- (a) ~~I~~s based on assumptions that are reasonable and supportable; and
 - (b) ~~F~~faithfully represent the assumptions and information on which the prospective financial information is based.

Commented [SW5]: Refer agenda item 6.5, section C.

Re-drafted intro to address EY concern around the interaction of the draft standard with 3000 and applicable review engagement standard. paras 13, 15, 17.

Commented [SW6]: Refer agenda item 6.6, EY Appendix 3 editorial

Commented [SW7]: Refer agenda item 6.6, EY Appendix 3 editorial

⁹ ISAE (NZ) 3000 (Revised), paragraph 24

Agreeing on the Terms of the Engagement

15. ~~The terms of the engagement agreed in accordance with~~ ISAE (NZ) 3000 (Revised)¹⁰ and ~~the applicable~~ Review Engagement Standard ~~require the parties to the engagement to agree the terms of the engagement. The agreed terms shall be in writing and, as applicable,~~ shall include: (Ref: A16)
- (a) The objective and scope of the engagement, including that the engagement is a limited assurance engagement; (Ref: [Para.A17](#))
 - (b) The responsibilities of the assurance practitioner;
 - (c) The responsibilities of the responsible party, including those described in paragraphs 13 and, if applicable, 14;
 - (d) Identification of the stated basis of preparation for the financial information;
 - (e) Reference to the expected form and content of any reports to be issued by the assurance practitioner and a statement that there may be circumstances in which a report may differ from its expected form and content;
 - (f) An expectation that the responsible party will provide written representations at the conclusion of the engagement;
 - (g) An expectation that the responsible party will provide access to all information of which it is aware that is relevant to the preparation of the financial information, including an expectation that the responsible party will provide access to information relevant to disclosures; ~~and~~
~~and~~
 - (h) Such other terms that the assurance practitioner determines are appropriate in the engagement circumstances. (Ref: [Para. A18](#))
16. ~~Where there is a change in the terms of the engagement in accordance with ISA (NZ) 3000 (Revised) and Review Engagement Standards, as applicable,~~ such change in the terms shall be agreed, in writing, with the engaging party. (Ref: [Para. A19](#))

Commented [SW8]: Refer agenda item 6.2, Section C

Commented [SW9]: Refer agenda item 6.2, Section C
Relationship with 3000 & applicable review engagement standard

Planning and Performing the Engagement

Planning

17. ~~When planning the engagement in accordance as required by~~ ~~with~~ ISAE (NZ) 3000 (Revised)¹¹ and ~~the applicable~~ Review Engagement Standards, ~~as applicable,~~ the assurance practitioner shall: (Ref: ~~Para~~ [A20-A22](#))
- (a) Establish an overall engagement strategy that sets the scope, timing and direction of the engagement and that guides the development of the plan;
 - (b) Ascertain the reporting objectives of the engagement to plan the timing of the engagement and the nature of the communications required;
 - (c) Consider the factors that, in the assurance practitioner's professional judgement, are significant in directing the engagement team's efforts;

Commented [SW10]: Refer agenda item 6.2, section C
Relationship with 3000 & applicable review engagement standard

¹⁰ ISAE (NZ) 3000 (Revised), paragraph 27

¹¹ ISAE (NZ) 3000 (Revised), paragraph 40

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(d) Consider the results of engagement acceptance or continuance procedures and, where applicable, whether knowledge gained on other engagements performed by the lead assurance practitioner for the entity is relevant;

~~(d)~~(e) Assess assurance engagement risk and consider the nature, timing and extent of planned risk assessment procedures;

~~(e)~~(f) Ascertain the nature, timing and extent of resources needed to perform the engagement, including the involvement of experts and other assurance practitioners; and

~~(f)~~(g) If applicable, determine whether the entity's external auditor or assurance practitioner will need to be contacted in respect of the audit opinion or review conclusion expressed on the most recent historical financial statements.

Commented [SW11]: Refer agenda item 6.2, section F Agenda item 6.6, EY Appendix 2, response to Q8

Materiality

18. The assurance practitioner shall determine materiality for the financial information as a whole, and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures. (Ref: Para. A23-A26)

19. The assurance practitioner shall revise materiality in the event of becoming aware of information during the engagement that would have caused the assurance practitioner to have determined a different amount initially. (Ref: Para. A27)

Understanding the Source and Basis of Preparation of the Financial Information and Other Engagement Circumstances

20. If the assurance practitioner does not have prior knowledge of the entity, the assurance practitioner shall obtain an understanding of the nature of the entity, and any acquiree or divestee whose financial information is included in the published financial information that is the subject of the assurance report. (Ref: Para. A28)

Commented [SW12]: Refer agenda item 6.2, Section F Agenda item 6.6, EY Appendix 2, response to Q8. Wording based on ASAE 3450. Applicable when the AP has no prior knowledge of the entity. When the AP is also the auditor, the AP will already have the knowledge of the entity.

21. The assurance practitioner shall obtain an understanding of the source and basis of preparation of the financial information and other engagement circumstances sufficient to: (Ref: Para. A2928)

(a) Enable the assurance practitioner to identify areas where a material misstatement of the financial information is likely to arise; and (Ref: A29)

(b) Thereby, provide a basis for designing and performing procedures to address the areas identified in paragraph 4921(a) and to obtain limited assurance to support the practitioner's conclusion.

22. In obtaining an understanding of the source and basis of preparation of the financial information and other engagement circumstances under paragraph 4921, the assurance practitioner shall obtain an understanding of internal control over the process used to prepare the financial information. (Ref: Para. A30)

23. If the assurance practitioner has performed other engagements for the entity, the assurance practitioner shall consider whether information obtained from those other engagements is relevant to understanding the source and basis of preparation of the financial information and other engagement circumstances.

24. In obtaining the understanding required by paragraph 201, the assurance practitioner shall obtain an understanding of:

(a) The form in which the financial information will be published;

Commented [SW13]: Refer agenda item 6.6, EY Appendix 2, response to Q8

- (b) The financial information; (Ref: Para. A31)
- (c) The stated basis of preparation chosen by the responsible party for the financial information including whether it is different from prior audited or reviewed historical financial information also included in the published financial information, and if so, why; (Ref: Para. A32)
- (d) Events and transactions that may have a significant impact on the preparation of the financial information;
- (e) The nature and type of other information to be included with the financial information, if available, sufficient to enable the assessment of whether it is consistent with the financial information;
- (f) Relevant industry, legal and regulatory and other external factors related to the financial information or that may impact the financial information; (Ref: Para. A33-A35)
- (g) Any recent key changes in the entity's business activities, and how such changes may affect the financial information;
- (h) Whether experts are required, and the extent to which their work will be used; and
- (i) The competence of the preparers of the financial information.

Pro Forma Historical Financial Information

25. In an engagement to provide assurance over pro forma historical financial information, in addition to the understanding required by paragraph 234, the assurance practitioner shall obtain an understanding of:
- (a) The source of the base historical financial information;
 - (b) Whether the base historical financial information has been previously audited or reviewed and, if so, the type of opinion or conclusion expressed and the implications, if any, on the engagement; and (Ref: Para. A36-A37) ~~and~~
 - (c) The pro forma adjustments. (Ref: Para. A38)

Prospective Financial Information

26. In an engagement to provide assurance over prospective financial information, in addition to the understanding required by paragraph 234, the assurance practitioner shall obtain an understanding of:
- (a) The stated basis of preparation chosen by the responsible party; (Ref: Para. A39)
 - (b) The accuracy of any prospective financial information prepared in prior time periods, and the reasons for any material variances;
 - (c) Whether comparative financial information is to be included, and whether it will be restated;
 - (d) Relevant financial information available in the public domain;
 - (e) Key expectations and relationships in the prospective financial information for use when designing and performing analytical procedures; and
 - (f) Significant assumptions used in the prospective financial information.

Pro Forma Prospective Financial Information

27. In an engagement to provide assurance over pro forma prospective financial information, in addition to the understanding required by paragraphs 234 and 26, the assurance practitioner shall obtain an understanding of:
 - (a) The source of the base financial information used in the preparation of the pro forma prospective financial information including whether it has been previously audited or reviewed; (Ref: Para. A36-A37)
 - (b) The stated basis of preparation of the pro forma prospective financial information;
 - (c) The pro forma adjustments; and
 - (d) Any recent key changes in the entity's business activities and how they affect the pro forma prospective financial information.
28. The lead assurance practitioner and other key engagement team members shall discuss the application of the stated basis of preparation and the susceptibility of the financial information to material misstatement.
29. When there are engagement team members not involved in the engagement team discussion, the lead assurance practitioner shall determine which matters are to be communicated to those members.

Obtaining Evidence

Designing and Performing Procedures

30. Based on the assurance practitioner's understanding obtained in accordance with paragraph 291, the assurance practitioner shall:
 - (a) Identify areas where a material misstatement of the financial information is likely to arise; and (Ref: Para. A40)
 - (b) Design and perform procedures to address the areas identified in paragraph 2930(a) and to obtain limited assurance to support the assurance practitioner's conclusion. (Ref: Para. A41)
31. The assurance practitioner shall perform the following procedures on the financial information:
 - (a) In respect of comparative information:
 - (i) Read the most recent audited or reviewed financial report in order to identify any matters that may affect the financial information;
 - (ii) Compare, for consistency, its stated basis of preparation against the entity's previously audited or reviewed historical financial information and if applicable, the most recent unaudited or unreviewed annual or interim financial report; ~~and~~
 - (iii) Evaluate the reasons for any differences; and
 - (iv) Determine that any restatements or adjustments made are appropriate;
 - (b) Evaluate the reasonableness and appropriateness of the time period covered;
 - (c) Enquire of the responsible party in respect of the financial information:

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- (i) That it agrees to, and has been reconciled to underlying, supporting accounting records and documentation;
- (ii) That it reflects any changes made to the stated basis of preparation from the most recent audited or reviewed financial statements;
- (iii) That it reflects the results of any identified misstatements from the prior year's financial statements;
- (iv) If any part of the financial information has been previously audited or reviewed, that it agrees to those audited or reviewed records;
- (d) Evaluate the appropriateness and suitability of any adjustments made by the responsible party as compared to the stated basis of preparation;
- (e) Perform analytical procedures on the financial information. (Ref: Para. A42-A43)
- (f) If applicable, enquire how the responsible party makes significant accounting estimates included in the financial information; (Ref: Para. A44-A46)
- (g) In respect of the stated basis of preparation:
 - (i) Understand the process for its selection and approval;
 - (ii) Understand what accounting policies have been adopted;
 - (iii) Evaluate its reasonableness and suitability;
 - (iv) Perform consistency checks in the application of the stated basis of preparation to the financial information;
 - (v) Evaluate, based on the assurance practitioner's understanding, whether the stated basis of preparation is adequately described in the document; and
 - (vi) Evaluate whether the financial information is prepared in all material respects in accordance with the stated basis of preparation;
- (h) Enquire of the responsible party and other relevant parties whether there were:
 - (i) Any changes in accounting policies, financial reporting practices and other reporting requirements that occurred during the relevant time period;
 - (ii) Any adjustments made to convert the financial information from an overseas jurisdiction's generally accepted accounting principles to the stated basis of preparation;
 - (iii) Any unadjusted differences from the most recently audited or reviewed financial report that may be material for purposes of the published financial information;
 - (iv) Any other provisions and other accounting estimates (such as asset revaluations) in the financial information;
 - (v) Any significant transactions with related parties (for example, assets purchased from an associated entity); and
- (i) Such other procedures that, in the assurance practitioner's judgement, are appropriate. (Ref: Para. A47)

Pro forma historical financial information

32. ~~31.~~—In addition to the procedures required by paragraph ~~30~~1, the assurance practitioner's procedures on the pro-forma historical financial information shall include:
- (a) Such procedures as are necessary, in relation to the base historical financial information, to obtain sufficient appropriate evidence in relation to that financial information on which to rely for engagement purposes; (Ref: Para. A48-A49)
 - (b) Understanding the stated basis of preparation for the pro forma historical financial information;
 - (c) Understanding the basis for, and calculations underlying the pro forma adjustments; (Ref: Para. A50-A51)
 - (d) Determining whether the pro forma adjustments:
 - (i) Have been selected and applied to the base historical financial information in accordance with the stated basis of preparation;
 - (ii) Are supported by sufficient appropriate evidence;
 - (iii) Are arithmetically correct; and
 - (e) Determining whether the resultant pro forma historical financial information reflects the results of ~~the~~ applying the pro forma adjustments to the base financial information.

Prospective financial information

33. ~~32.~~—In addition to the procedures required by paragraph ~~31~~0, for assurance over prospective financial information, to obtain evidence about the source of the prospective financial information. ~~determine whether the responsible party has extracted the prospective financial information from an appropriate source.~~ the assurance practitioner shall:
- (a) Make enquiries of the responsible party, experts and relevant parties on the nature of the source of the prospective financial information;
 - (b) If the source of the prospective financial information includes material historical financial information which has been previously audited or reviewed:
 - (i) Read the historical financial information to which the audit or review report relates to establish if its stated basis of preparation and time frame covered are appropriate; and
 - (ii) Read the audit or review report to assess whether the report was modified and, if so, why, and the impact if any on the engagement, and whether there are any matters that may affect the prospective financial information; or
 - (c) If the source of the prospective financial information includes material historical financial information which has not been previously audited or reviewed: (Ref: Para. A52)
 - (i) Ascertain whether the assurance practitioner is able to access all required documentation describing and supporting the source;
 - (ii) Enquire of the responsible party about:
 - The process by which the source has been prepared and the reliability of its underlying accounting records;

Commented [SW14]: Refer agenda item 6.6, EY Appendix 3 - question use of extracted in the ED. Wording of this paragraph as drafted in the ED is consistent with ASAE 3450, p108. Have redrafted the paragraph to draw out what the purpose of the procedure is i.e., to obtain evidence about the source of the prospective financial information.

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- Whether all transactions for the time period have been recorded;
 - Whether the source has been prepared in accordance with the entity's accounting policies and stated basis of preparation.
 - Whether there have been any changes in accounting policies from that adopted in the most recent audited or reviewed financial statements and, if so, how such changes have been dealt with;
 - The responsible party's assessment of the risk that the source may be materially misstated as a result of error or fraud;
 - How recently the entity's historical financial information was audited or reviewed;
 - Whether there have been any changes in the entity's business activities and operations, and if so, their effect on the source; and
 - The extent to which statistical and mathematical modelling, computer assisted audit techniques and other techniques have been used in the preparation of the prospective financial information, and the reliability of those techniques; or
- (iii) If the assurance practitioner has audited or reviewed the immediately preceding annual or interim historical financial information, consider the findings and whether these might indicate any issues with the preparation of the source from which the historical financial information has been extracted;
- (d) Evaluate the adequacy and reliability of the source of the prospective financial information;
- (e) Evaluate the accuracy of any prospective financial information prepared in prior time periods compared to actual financial results, and the reasons provided for significant variances; and (Ref: ~~Para. A43A53~~)
- (f) Determine whether the source of the prospective financial information reflects any changes made to the stated basis of preparation from the prior audited or reviewed period, and if so:
- (i) Determine the nature of, and reasons for, the changes and their effect on the prospective financial information;
 - (ii) Evaluate whether there have been any reclassifications or adjustments made by the responsible party to reflect unusual or non-recurring items, or to correct known errors and uncertainties and the reasonableness of such adjustments; and
 - (iii) Evaluate any difference between the basis of preparation of the prospective financial information and that of other types of financial information included in the published financial information.
34. ~~33.~~—If the assurance practitioner is unable to assess whether the source of the prospective financial information is appropriate, the assurance practitioner shall consider the implications for the engagement and the assurance report.
35. ~~34.~~—The assurance practitioner shall perform the following procedures on the assumptions: (Ref: ~~A53-A54~~)

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- (a) Read the most recent audited or reviewed financial report, and, if appropriate, the most recently prepared annual or interim financial information, to enable an assessment of the assumptions used in the preparation of the prospective financial information;
 - (b) Enquire of the responsible party of:
 - (i) The source, degree of reliability, uncertainty, verifiability, and validity of the assumptions, including whether the assumptions are objectively reasonable;
 - (ii) The time period the assumptions cover;
 - (iii) The methodology used in development and quantification of the assumptions, including the extent to which they are affected by the responsible party's judgement;
 - (iv) The likelihood of the assumptions actually occurring; and/or
 - (v) Whether the assumptions have a wide range of possibilities, or their outcomes are particularly sensitive to fluctuations, and if so, the effect on the prospective financial information of such sensitivities; (Ref: Para. A54)
 - (c) Evaluate whether all significant assumptions required for the preparation of the prospective financial information have been identified;
 - (d) Determine whether the assumptions used in the preparation of the prospective financial information are consistent with the stated basis of preparation;
 - (e) Determine whether the assumptions are arithmetically correct;
 - (f) Consider whether the significant assumptions are reasonable and supportable;
 - (g) Evaluate whether the assumptions are within the entity's capacity to achieve in light of the assurance practitioner's understanding of the prospective financial information;
 - (h) Review the responsible party's sensitivity analysis to test the responsiveness, or otherwise, of the prospective financial information to material changes in key assumptions underlying that prospective financial information; and
 - (i) Consider the responsible party's reliance on the work of experts in relation to the assumptions.
36. ~~35.~~—If the responsible party's assumptions on which the prospective financial information has been prepared lack supporting evidence, and are determined by the assurance practitioner not to be reasonable and supportable, the assurance practitioner shall determine the implications for the engagement and the assurance report, taking into account any applicable law or regulation.
37. ~~36.~~—To ascertain whether the prospective financial information has been prepared in accordance with the stated basis of preparation and the assumptions, the assurance practitioner shall:
- (a) Evaluate the stated basis of preparation used by the responsible party in the preparation of the prospective financial information; (Ref: Para. A55)
 - (b) Evaluate whether the stated basis of preparation described in the published financial information is consistent with the assurance practitioner's understanding;
 - (c) Agree or reconcile the significant assumptions to the stated basis of preparation;

- (d) Agree that the prospective financial information reflects any changes made to the stated basis of preparation from the previously audited or reviewed financial report included in the published financial information;
 - (e) Review the internal consistency of assumptions including those with common variables (that is, the actions the responsible party intends to take are compatible with each other and there are no inconsistencies in the determination of the amounts that are based on common variables, such as interest rates);
 - (f) Perform clerical checks such as re-computations on the prospective financial information;
 - (g) Consider the interrelationships of elements within the prospective financial information; and
 - (h) -Consider whether any other procedures are necessary in the circumstances.
38. ~~37.~~—The assurance practitioner shall perform the following procedures on the prospective financial information itself:
- (a) Evaluate the length of time covered by the prospective financial information by: (Ref: Para. A56)
 - (i) Enquiring of the responsible party the reasons for the choice of time period;
 - (ii) Considering whether the time period is consistent with the entity's normal reporting period and operating cycle so as to make it comparable to any previously issued historical financial information; and
 - (iii) Considering whether any elapsed portion of the current time period is included in the prospective financial information;
 - (b) Evaluate the type of business conducted by the entity, the assumptions included in the prospective financial information, and consequently the assessed volatility overall of the prospective financial information;
 - (c) Consider the accuracy of prospective financial information prepared in prior time periods as compared to actual financial results and obtain and evaluate the responsible party's reasons for any significant variances; and
 - (d) Evaluate whether the prospective financial information is reasonable and supportable, based on evidence obtained throughout the engagement.

Pro Forma Prospective Financial Information

39. ~~38.~~—In addition to the procedures required by paragraph 301 and 323-378, for assurance over pro forma prospective financial information, the assurance practitioner shall:
- (a) Perform such procedures as are necessary, in relation to the base financial information, to obtain sufficient appropriate evidence on which to rely for engagement purposes; (Ref: Para. A57)
 - (b) Determine whether the pro forma adjustments: (Ref: Para. A58)
 - (i) Are directly attributable to the events or transactions requiring the preparation of the pro forma prospective financial information;
 - (ii) Have been selected and applied by the responsible party on a basis consistent with the stated basis of preparation;

- (iii) Are supported by sufficient appropriate evidence;
 - (iv) Are arithmetically correct; and
 - (v) Reflect the planned events or transactions in the time period in which they are expected to occur; ~~and~~.
- (c) Evaluate whether the resultant pro forma prospective financial information reflects the results of applying the pro forma adjustments to the base financial information. (Ref: Para. A59-A60)

Specialised Skills or Knowledge

40. ~~39.~~—The assurance practitioner shall determine whether specialised skills or knowledge are required regarding the financial information and whether to use the work of an assurance practitioner's expert. (Ref: Para. A61-A62)

Written Representations

41. ~~40.~~—The assurance practitioner shall request written representations from the appropriate party(ies): ~~(para A3)~~
- (a) That they understand and accept the terms of the assurance engagement, including the assurance practitioner's reporting responsibilities and the type of assurance, i.e., limited assurance, to be expressed;:
 - (b) That they acknowledge and understand their responsibility for:
 - (i) The preparation of the ~~of the~~ financial information in accordance with the stated basis of preparation;
 - (ii) The selection of the financial information, including whether it contains comparatives;
 - (iii) Determining the relevant time period to be covered by the financial information;
 - (iv) The determination, selection, development, adequate disclosure and consistent application of the stated basis of preparation in the document;
 - (v) The contents, preparation and issuance of the published financial information;:
 - (vi) Complying with the requirements of the applicable laws and regulations in the preparation of the published financial information; and
 - (vii) Such internal control as is determined to be necessary to enable the preparation of financial information and the published financial information.
 - (c) That the going concern basis of preparation of the financial information is appropriate in the document;:
 - (d) That the assurance practitioner has been provided with all relevant information and access as agreed in the terms of engagement prior to the finalisation of the assurance report;:
 - (e) That all material events and transactions have been properly recorded in the accounting records underlying the financial information.

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- (f) That there are no currently anticipated material changes to be made to the financial information between the date of the report and the date of the published financial information (or that any material changes that may have occurred have been advised to the assurance practitioner/firm).~~;~~
- (g) Whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial information. A summary of such items shall be included in or attached to the written representations.
- (h) Whether there have been events, transactions, corrections, errors or other matters that have arisen or been discovered subsequent to the preparation of the financial information that may impact, or require adjustment to, the financial information.
- (i) Whether all material risks that may impact on the business have been adequately disclosed in the document and considered in relation to their impact on the financial information.
- (j) That they have disclosed to the assurance practitioner their knowledge of fraud or suspected fraud affecting the entity involving:
 - (i) Management;
 - (ii) Employees who have significant roles in internal control; or
 - (iii) Others where the fraud could have a material effect on the financial information.
- (k) That all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial information have been disclosed to the assurance practitioner.
- (l) Whether there have been any communications from governmental or other regulatory authorities concerning non-compliance with, or deficiencies in, the entity's adherence to relevant legislation
- (m) Such other written representations that the assurance practitioner determines are appropriate in the engagement circumstances.

Pro forma historical financial information

42. ~~41.~~—When the financial information includes pro forma historical financial information, the written representations requested by the assurance practitioner shall include, in addition to the requirements in paragraph ~~40~~1, acknowledgement by the responsible party of its responsibility for:
- (a) Selecting the basis of preparation of the pro forma historical financial information;
 - (b) Selecting the base historical financial information used as the source of the pro forma historical financial information; and
 - (c) Selecting and determining the pro forma adjustments.~~;~~

Prospective Financial Information

43. ~~42.~~—In addition to the representations required by paragraph ~~40~~1, when the financial information includes prospective financial information, the assurance practitioner shall request the following representations from the appropriate party(ies):

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(a) That they understand and acknowledge their responsibility for determining the best estimate assumptions on which the prospective financial information is based, and that the assumptions are reasonable and supportable.

Commented [SW15]: Refer agenda item 6.2, Section F
Agenda item 6.6, EY Appendix 3

~~(a)~~(b) Confirmation of the completeness of all significant assumptions used in the preparation of the prospective financial information.

~~(b)~~(c) That the significant assumptions remain appropriate, even if the underlying information has been accumulated over a period of time.

Pro forma prospective financial information

44. ~~43.~~—When the financial information includes proforma pro forma prospective financial information, the written representations requested by the assurance practitioner shall include, in addition to the requirements in paragraphs ~~401 and 43,~~ acknowledgement by the responsible party of its responsibility for:

- (a) Selecting the basis of preparation of the pro forma prospective financial information;
- (b) Selecting the base prospective financial information used as the source of the pro forma prospective financial information; and
- (c) Selecting and determining the pro forma adjustments.

Subsequent Events

45. ~~44.~~—If the assurance practitioner becomes aware of events, transactions or errors after the issuance of the assurance report and before the allotment date that require adjustment of, or disclosure in, the financial information, the assurance practitioner shall request the responsible party to correct those misstatements. (Ref: Para. A643)

46. ~~45.~~—The assurance practitioner shall revoke any consent to include the assurance report in the published financial information if in the assurance practitioner's professional judgement, the matter referred to in paragraph ~~454~~ is not appropriately addressed by the responsible party.

Going Concern

47. ~~46.~~—A limited assurance engagement includes consideration of the entity's ability to continue as a going concern. The assurance practitioner shall consider the responsible party's assessment of the entity's ability to continue as a going concern in order to obtain sufficient appropriate evidence regarding the appropriateness of the responsible party's use of the going concern assumption in the preparation of the financial information. If identified uncertainties and related mitigating factors require significant judgements or assumptions, the assurance practitioner shall consider whether those significant judgements and assumptions are appropriately disclosed (Ref: Para. A654-A65)

Commented [SW16]: Suggested addition from the working group to link to new application material in para A66

48. ~~47.~~—If the assurance practitioner concludes the entity is not a going concern, or if there is a material uncertainty related to events or conditions that individually, or collectively, may cast significant doubt about the entity's ability to continue as a going concern, the assurance practitioner shall consider the implications for the engagement and the assurance report. (Ref: Para. A666)

Forming the Assurance Conclusion

49. ~~48.~~—The assurance practitioner shall form a conclusion about whether the financial information is free from material misstatement. In forming that conclusion, the assurance practitioner shall consider the assurance practitioner’s conclusion regarding the sufficiency and appropriateness of evidence obtained in the context of the engagement and the evaluation of whether uncorrected misstatements are material, individually or in the aggregate ~~in accordance with as required by~~ ISAE (NZ) 3000 (Revised)¹² and the applicable Review Engagement Standards, ~~as applicable~~.

Preparing the Assurance Report

50. ~~49.~~—The assurance report shall be in writing and shall contain a clear expression of the assurance practitioner’s conclusion on each type of financial information that is the subject of the engagement.
51. ~~50.~~—The assurance practitioner’s ~~conclusion~~ shall clearly distinguish each type of financial information ~~from any other types of financial information~~ within the assurance report. (Ref: ~~A67—A68~~)

Assurance Report Content

52. ~~51.~~—The assurance report shall ~~be in writing and shall~~ include, at a minimum, the following basic elements: (Ref: ~~Para.~~ A69-A70)
- (a) A title that clearly indicates the report is an independent limited assurance report.
 - (b) An addressee.
 - (c) Identification of the financial information, including the period(s) it covers, and, if any information in the financial information is not covered by the assurance practitioner’s conclusion, clear identification of the financial information subject to assurance as well as the excluded information, together with a statement that the assurance practitioner has not performed any procedures with respect to the excluded information and, therefore, that no conclusion on it is expressed.
 - (d) A description of the responsible party’s responsibilities.
 - (e) Identification of the stated basis of preparation including:
 - (i) How the stated basis of preparation can be accessed; and
 - (ii) If the stated basis of preparation needs to be supplemented by disclosures in the explanatory notes to the financial information for that stated basis of preparation to be suitable, identification of the relevant note(s).
 - (f) ~~If~~ When the stated basis of preparation is available only to specific intended users, or is relevant only to a specific purpose, a statement alerting readers to this fact and that, as a result, the financial information may not be suitable for another purpose. The statement shall also restrict the use of the assurance report to those intended users or that purpose.
 - (g) A statement to identify the responsible party and the measurer or evaluator if different, and to describe their responsibilities and the assurance practitioner’s responsibilities.

Commented [SW17]: Redrafting the requirement with the action on the practitioner. Wording "from any other types of financial information" not necessary in the context of the sentence.

Commented [SW18]: Remove duplication. Repeats para 49

Commented [SW19]: Refer agenda item 6.6, EY Appendix 3

¹² ISAE (NZ) 3000 (Revised), paragraphs 64-65

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- (h) A statement that the engagement was performed in accordance with ~~proposed~~ SAE 3450, *Assurance Engagements Over Financial Information Prepared in Connection with a Capital Raising*. (Ref: Para. A71)
- (i) A statement that the firm of which the assurance practitioner is a member applies Professional and Ethical Standard 3, or other professional requirements, or requirements in law or regulation, that are at least as demanding as Professional and Ethical Standard 3. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as Professional and Ethical Standard 3.
- (j) A statement that the assurance practitioner complies with the independence and other ethical requirements of Professional and Ethical Standard 1, or other professional requirements that are at least as demanding as Professional and Ethical Standard 1. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as Professional and Ethical Standard 1.
- (k) An informative summary of the work performed as the basis for the assurance practitioner's conclusion. In a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential to understanding the assurance practitioner's conclusion. In a limited assurance engagement, the summary of work performed shall state that:
 - (i) The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and (Ref: Para. A72 – A74)
 - (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.
- (l) The assurance practitioner's conclusion expressed in a form that conveys whether, based on the procedures performed and the evidence obtained, a matter(s) has come to the assurance practitioner's attention to cause the assurance practitioner to believe that the financial information is not prepared, in all material respects, in accordance with the stated basis of preparation.
- (m) When the assurance practitioner expresses a modified conclusion, the assurance report shall contain:
 - (i) A section that provides a description of the matter(s) giving rise to the modification; and
 - (ii) A section that contains the assurance practitioner's modified conclusion.
- (n) A statement as to the existence of any relationship (other than as investigating accountant) the assurance practitioner has with, or any interests which the assurance practitioner has in, the entity.
- (o) A statement that the financial information has been prepared for the document, and that as a result, the financial information may not be suitable for another purpose.

~~(p)~~ If applicable, a consent statement.

Commented [SW20]: Refer agenda item 6.6, EY Appendix 2

~~(q)~~ The name of the lead assurance practitioner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.

~~(r)~~ The assurance practitioner's signature.

~~(s)~~ The date of the assurance report. The assurance report shall be dated no earlier than the date on which the assurance practitioner has obtained the evidence on which the assurance practitioner's conclusion is based, including evidence that those with the recognised authority have asserted that they have taken responsibility for the financial information.

~~(t)~~ The location in the jurisdiction where the assurance practitioner practices.

~~(u)~~ A statement that the financial information has been prepared for the document, and that as a result, the financial information may not be suitable for another purpose.

Pro forma historical financial information

53. ~~52.~~—When reporting on pro forma historical financial information, in addition to the elements required by paragraph ~~5+2~~, the assurance report shall include:

- (a) Statements that:
 - (i) Identify the pro forma historical financial information being reported on, including the time period it covers;
 - (ii) Identify whether there has been an audit or review conducted on the source from which the base historical financial information was prepared; and
 - (iii) Cross reference to, or describe, the stated basis of preparation selected by the responsible party for the pro forma historical financial information.
- (b) If applicable, a statement that the engagement did not include updating or re-issuing any previous audit or review report on the base historical financial information used in the preparation of the pro forma historical financial information.
- (c) The assurance practitioner's conclusion on the pro forma historical financial information.

Prospective financial information

54. ~~53.~~—When reporting on prospective financial information, in addition to the elements required by paragraph ~~5+2~~, the assurance report shall include:

- (a) A background section that identifies the purpose of the assurance report, and if applicable, the fact that it will be included in the published financial information;
- (b) Statements that:
 - (i) Identify the entities whose prospective financial information is the subject of the assurance report and, if applicable, the responsible party;
 - (ii) Identify the source of the prospective financial information, its purpose, the time period covered and, if applicable, a statement that the prospective financial information has been prepared for inclusion in the published

financial information and, that as a result, may not be suitable for another purpose; ~~and-~~

- (iii) Cross-reference to, or describe, the stated basis of preparation selected by the responsible party in the preparation of the prospective financial information.
- (c) Statements that:
 - (i) Actual results are likely to be different from the prospective financial information since anticipated events or transactions frequently do not occur as expected and the variation could be material; and
 - (ii) Disclaim the assurance practitioner's responsibility for the achievability of the results indicated by the prospective financial information.

Pro Forma Prospective financial information

55. ~~54.~~—When reporting on prospective financial information, in addition to the elements required by paragraphs ~~512~~ and ~~534~~, the assurance report shall include statements that:
- (a) Identify the pro forma prospective financial information, its purpose, the time period covered and, if applicable, a statement that the pro forma prospective financial information has been prepared for inclusion in the published financial information and, that as a result, may not be suitable for another purpose.
 - (b) Cross-reference to, or describe, the stated basis of preparation selected by the responsible party in the preparation of the pro forma prospective financial information.

Consent~~Other Information~~

~~56.~~ 56. ~~The assurance practitioner shall read the other information that accompanies the published financial information to consider whether there are any material inconsistencies with the published financial information. (Ref: Para. A75-A77)~~

~~57.~~ 57. ~~If a matter comes to the assurance practitioner's attention that causes the assurance practitioner to believe that the other information appears to include a material misstatement, the assurance practitioner shall discuss the matter with the responsible party.~~

Consent

~~56-58.~~ 55.—The assurance practitioner shall consider applicable law or regulation when the assurance practitioner has been requested to provide consent in writing to the responsible party for the inclusion of the assurance report in the published financial information. (Ref: ~~Para. A7875—A77~~)

~~57-59.~~ 56.—If the assurance practitioner does not consider it appropriate for the assurance report to be included in the published financial information, the assurance practitioner shall either not provide consent, or revoke consent prior to the allotment date.

Commented [SW21]: Refer agenda item 6.2, section F
Agenda item 6.5 section E, question 8
Added to address concern around practitioner responsibility for other information.

Application and Other Explanatory Material

Scope

- A1. The assurance report may be on a single type of financial information (individual assurance report) or on multiple types of financial information. [\(Ref: Para. 2\)](#)
- A2. In some circumstances the assurance practitioner may also agree to provide non-assurance services related to the capital raising, for example, participation in the entity's due diligence committee or the preparation and issuance of a Materiality Advice Letter or similar document related to the capital raising to an entity's due diligence committee. Such services are outside the scope of this standard. [\(Ref: Para. 4\)](#)

Definitions [\(Ref: Para. 10\)](#)

- A3. The entity uses the best information that could reasonably be expected to be available at the time the prospective financial information is prepared in determining the assumptions ~~and information~~ used in the preparation of the prospective financial information.
- A4. The assurance report may also be referred to as an "Investigating Accountant's Report" ~~or an "Independent Limited Assurance Report"~~.
- A5. Base financial information may ~~not~~ or may not have been previously audited or reviewed.
- A6. Capital raisings may include, for example, initial public offerings, takeovers, schemes of arrangement or other corporate restructures.
- ~~A7.~~ Prospective financial information relates to events and conditions that have not yet occurred and may not occur. While evidence may be available to support the assumptions on which the prospective financial information is based, such evidence is itself generally future oriented and, therefore, speculative in nature, as distinct from the evidence ordinarily available in the audit of historical financial information. The assurance practitioner is, therefore, not in a position to conclude as to whether the results shown in the prospective financial information will be achieved.

A8. A stated basis of preparation may include:

- The recognition and measurement principles contained in New Zealand Equivalents to International Financial Reporting Standards (but not all the presentation and disclosure requirements) and the entity's adopted accounting policies;
- The recognition and measurement principles contained in New Zealand Equivalents to International Financial Reporting Standards adjusted for pro forma adjustments, selected by the responsible party and disclosed in the applicable disclosure document; or
- Any other basis of preparation selected by the responsible party and disclosed in the applicable disclosure document that meets the requirements for suitable criteria in accordance with Explanatory Guide Au1A Framework for Assurance Engagements.

Commented [SW22]: Refer agenda item 6.6, EY Appendix 3

Commented [SW23]: Refer agenda item 6.2, section A(ii)

Preconditions for the Assurance Engagement (Ref: Para. 13-14)

~~A7.A9.~~ The engaging party is ordinarily the responsible party. References in this SAE to *responsible party* are taken to include the *engaging party* unless otherwise stated.

~~A8.A10.~~ The responsible party is ultimately responsible for the preparation and presentation of the published financial information. The responsible party may engage experts, for example, tax advisors, business advisors or legal counsel, who may prepare, assist with the preparation of, or provide independent advice on, the financial information included in the published financial information; however, the responsible party retains responsibility for such information. The only exception to this is in respect of reports prepared by other parties, including experts, which are included, by consent, in the published financial information.

~~A9.A11.~~ If the responsible party is not also the engaging party, the assurance practitioner ordinarily considers the effect this may have on the ability to access records, documentation and other information that may be needed by the assurance practitioner to complete the engagement.

~~A10.A12.~~ ~~When the assurance practitioner is not the auditor of the entity, the assurance practitioner may need to consider the type of financial information over which assurance is sought. In particular, w~~When the assurance practitioner is not the auditor of the entity and assurance is sought over historical financial information, the assurance practitioner may ~~be limited in their~~~~consider their~~ ability to obtain sufficient appropriate evidence in relation to that historical financial information. ~~, for example, , among~~For example, among other factors, the assurance practitioner's ~~considerations in determining whether the preconditions for the engagement are met may include whether they have or will be able to obtain sufficient~~limited knowledge of the entity ~~and , their~~ understanding of risks ~~given and~~ the compressed timeline often involved in these types of assurance engagement. The assurance practitioner ~~may consider it necessary~~will need to perform a review engagement ~~in accordance that meets the requirements of with~~ISRE (NZ) 2400 on the historical financial information in order to obtain sufficient evidence on which to base the limited assurance conclusion.

~~A11.A13.~~ The responsible party's responsibility for the preparation of the financial information may also include responsibility for the selection of the financial information, including whether it contains comparative information, and for determining the applicable time period to be covered by the financial information.

Pro Forma Financial Information

~~A12.A14.~~ In an engagement to provide assurance over pro forma financial information (both historical and prospective), the responsible party's responsibility for the preparation of the financial information may include:

- Selecting the basis of preparation of the pro forma financial information;
- Selecting the base financial information used as the source for the pro forma financial information;
- Selecting and determining the pro forma adjustments;
- Preparing pro forma financial information in accordance with the stated basis of preparation.

Commented [SW24]: Refer agenda item 6.5, section C, question 5. Paragraph reworded.
Strengthened the link to 2400

A13:A15. In circumstances where the assurance practitioner cannot access, or obtain access to, documentation supporting the source of the base historical financial information or the pro forma adjustments, or does not audit one of the entities whose financial information is included in the pro forma historical financial information, the assurance practitioner and responsible party may alternatively agree for an assurance engagement to be conducted to report on the compilation of the pro forma historical financial information. When the assurance practitioner is required to provide assurance on whether the pro forma financial information has been properly compiled, refer to ISAE (NZ) 3420 *Assurance Engagements to report on the Compilation of Pro Forma Financial Information Included in a Prospectus*.

A14:A16. Circumstances such as those outlined in paragraph A145 may occur, for example, when:

- The capital raising involves a takeover transaction in which neither the assurance practitioner nor the responsible party of the entity are able to access the other entity's financial information.
- The capital raising involves a takeover transaction where the other entity has not been subject to an audit or review.
- There is insufficient time ~~to~~in which to conduct the engagement to enable the expression of assurance on the pro forma historical financial information itself.

Agreeing on the Terms of the Engagement (Ref: Para. 15-16)

A15. ~~An illustrative engagement letter is set out in Appendix 1.~~

A16:A17. The objective and scope agreed in the terms of engagement may include, for example:

- The assurance practitioner's understanding of the purpose of the assurance engagement, the nature of, and time period covered by, the financial information, and the intended users of the assurance report.
- Confirmation that the assurance practitioner will conduct the engagement in accordance with this SAE.
- That the responsible party is responsible for the preparation of the financial information.
- That the assurance practitioner will assess whether the financial information has been prepared in accordance with the stated basis of preparation.
- That an audit is not being performed and that consequently, an audit opinion will not be expressed.
- The type(s) and proposed wording of the assurance conclusion.
- That the engagement cannot be relied upon to identify fraud, errors, non-compliance with laws or regulations or other irregularities that may exist within the entity.

A17:A18. Other terms that the assurance practitioner may consider appropriate to agree include, for example:

- A description of the assurance procedures to be performed.

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- Important timelines for the completion of the engagement, for example, the expected date of publication of the financial information and when the assurance practitioner's consent is required.
- Arrangements regarding the planning and performance of the engagement, including the composition of the engagement team.
- Arrangements for the assurance practitioner to:
 - Attend meetings such as the due diligence committee meetings, if applicable.
 - Receive draft and final versions of the financial information.
 - Use the services of the responsible party's experts.
 - Communicate directly with the entity's external auditor regarding matters relevant to the financial information.
 - Provide consent to the inclusion of the assurance practitioner's assurance report.

A18:A19. Changes in the terms of the engagement are required to be agreed in writing to ensure no misunderstanding occurs between the parties of what has been agreed.

Planning and Performing the Engagement

Planning (Ref: Para. 17)

A19:A20. The type of planning activities the assurance practitioner performs depends on the level of understanding of the entity the assurance practitioner has. The required understanding may be obtained from prior audit or review engagements performed.

A20:A21. The assurance practitioner may decide to discuss elements of planning with the responsible party when determining the scope of the engagement or to facilitate the conduct and management of the engagement (for example, 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 assurance practitioner's responsibility. When discussing matters included in the overall engagement strategy or engagement plan, care is required in order not to compromise the effectiveness of the engagement. For example, discussing the nature and timing of detailed procedures with the responsible party may compromise the effectiveness of the engagement by making the procedures too predictable.

A21:A22. The performance of an assurance engagement is an iterative process. As the assurance practitioner performs planned procedures, the evidence obtained may cause the assurance practitioner to modify the nature, timing or extent of other planned procedures. In some cases, information may come to the assurance practitioner's attention that differs significantly from that expected at an earlier stage of the engagement.

Materiality (Ref: Para. 18-19)

A22:A23. The concept of materiality generally includes the principles that:

- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of users taken on the basis of the financial information.

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- Judgements about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
- Judgements about matters that are material to intended users of the financial information are based on a consideration of the common information needs of intended users as a group. Unless the engagement has been designed to meet the particular information needs of specific users, the possible effect of misstatements on specific users, whose information needs vary widely, is not ordinarily considered.

A23-A24. The stated basis of preparation may discuss the concept of materiality in the context of the preparation and presentation of the financial information. Such a discussion, if present in the stated basis of preparation, provides a frame of reference to the assurance practitioner in determining materiality for the engagement. If the stated basis of preparation does not include a discussion of the concept of materiality, the characteristics referred to above provide the assurance practitioner with such a frame of reference.

A24-A25. The assurance practitioner may not be able to identify all those who will read the assurance report, particularly where there are a large number of people who have access to it. In such cases, particularly where possible users are likely to have a broad range of interests, 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 assurance practitioner and the engaging party, or by law or regulation.

A25-A26. Judgements about materiality are made in light of surrounding circumstances, and are affected by both quantitative and qualitative factors. However, decisions regarding materiality are not affected by the level of assurance, that is, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement. Materiality calculated for purposes of the financial information may not necessarily be the same amount as would be calculated for an audit or review of the annual financial statements due to difference in the purpose for which the financial information is prepared and potential differences in who the intended users are.

A26-A27. The assurance practitioner's determination of materiality may need to be revised during the engagement as a result of:

- A change in circumstances ~~a~~ (for example, the disposal of a major part of the entity's business);⁵
- New information, or a change in the assurance 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 accounting estimates used are likely to be substantially different from those included in the financial information used to determine materiality.

If during the engagement the assurance practitioner concludes that a lower materiality for the financial information (and, if applicable, materiality level or levels for particular types of accounts or disclosures) than that initially determined is appropriate, it may be necessary to revise materiality and the nature, timing and extent of the further procedures.

Understanding the Source and Basis of Preparation of the Financial Information and Other Engagement Circumstances (Ref: Para. 20-21)

A28. ~~The understanding of the entity required by paragraph 20 might include:~~

- ~~• Its size and complexity.~~
- ~~• Its ownership and management structure.~~
- ~~• The regulatory environment.~~
- ~~• Key strategies.~~
- ~~• Products and services.~~
- ~~• The industry in which the entity operates.~~
- ~~• Its operating history.~~
- ~~• Available financial resources and obligations.~~
- ~~• Any changes from prior financial reporting periods in the nature or extent of its operations, including whether there have been any mergers or acquisitions.~~

Commented [SW25]: Application to the new para 20

~~A27-A29.~~ Obtaining an understanding of the source and basis of preparation of the financial information and other engagement circumstances provides the assurance practitioner with a frame of reference for exercising professional judgement throughout the engagement, for example when:

- Considering the characteristics of the source of the financial information;
- Assessing the suitability of ~~criteria~~ ~~the stated basis of, i.e., its basis of~~ preparation;
- Considering the factors that, in the assurance practitioner's professional judgement, are significant in directing the engagement team's efforts, including where special consideration may be necessary; for example, the need for specialised skills or the work of an expert;
- Establishing and evaluating the continued appropriateness of quantitative materiality levels (where appropriate), and considering qualitative materiality factors;
- Developing expectations for use when performing analytical procedures;
- Designing and performing procedures; and
- Evaluating evidence, including the reasonableness of the oral and written representations received by the assurance practitioner.

Commented [SW26]: Refer agenda item 6.6, EY Appendix 2. The criteria for this engagement is the stated basis of preparation

~~A28. In a limited assurance engagement, identifying the areas where a material misstatement of the subject matter information is likely to arise enables the assurance practitioner to focus procedures on those areas. For example, in an engagement when the subject matter information is a sustainability report, the assurance practitioner may focus on certain areas of the sustainability report. The assurance practitioner may design and perform procedures over the entire subject matter information when the subject matter information consists of only a single area or when obtaining assurance over all areas of the subject matter information is necessary to obtain meaningful assurance.~~

Commented [SW27]: Refer agenda item 6.6, EY Appendix 2. Deleted as not particularly relevant to the capital raising assurance engagement.

~~A29-A30.~~ In a limited assurance engagement, obtaining an understanding of internal control over the process used to prepare the financial information assists the assurance practitioner in designing and performing procedures that address the areas where a material misstatement of the financial information is likely to arise. In considering the

process used, the assurance practitioner uses professional judgement to determine which aspects of the process are relevant to the engagement and may make enquiries of the appropriate party about those aspects.

A30:A31. The assurance practitioner's understanding of the financial information generally includes obtaining an understanding of:

- The type, source and nature of the financial information.
- The time period covered and the reasons for its selection.
- Its intended use.
- The extent to which the financial information may be affected by the responsible party's judgements.
- Whether the financial information contains comparative information, whether such comparative information will be restated, and if so, why.
- Identifying relevant information available in the public domain.
- Identifying expected and plausible relationships within the financial information for use when performing analytical procedures.
- Whether the financial information has been previously audited or reviewed and, if so, the type of audit opinion or review conclusion expressed in the assurance practitioner's report.
- Whether the financial information has been prepared on a consistent basis with that of any prior period audited or reviewed information included in the document.
- Whether adjustments have been made that were considered immaterial in the prior period audit or review.

A31:A32. The stated basis of preparation of the financial information may differ from prior audited or reviewed historical information also included in the published financial information. When this is the case, the required understanding of the accounting policies that have been adopted, includes an understanding of why the stated basis of preparation differs from prior audited or reviewed historical financial information.

A32:A33. Relevant industry factors may include industry conditions, such as the competitive environment, supplier and customer relationships, and technological developments. Examples of matters the assurance practitioner may consider include:

- The market and competition, including demand, capacity, and price competition.
- Common business practices within the industry.
- Cyclical or seasonal activity.
- Product technology relating to the entity's products.

A33:A34. Relevant legal and regulatory factors may include the applicable financial reporting framework in accordance with which periodic financial information is prepared, and the legal and political environment. Examples of matters the assurance practitioner may consider include:

- Industry specific accounting practices.
- The legal and regulatory framework for a regulated industry.

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- Legislation and regulation that directly affect the entity's or any acquiree's or divestee's operations, including direct supervisory activities.
- Taxation.
- Government policies that may be relevant to the entity or any acquiree or divestee.
- Environmental requirements affecting the entity's or any acquiree's or divestee's industry and business.

A34:A35. Other external factors might include the general economic conditions, interest rates and availability of financing.

Pro Forma Financial Information (Ref: Para. 25, 27)

A35:A36. When the base financial information has been previously audited or reviewed, the assurance practitioner may:

- Request a copy of the audit or review report accompanying the base financial information and, if obtained, read it to understand the type of report issued and, if modified, the reasons for the modification;
- Contact the other assurance practitioner to request access to engagement documentation supporting the report and, if provided, read the documentation to assess the appropriateness of the approach taken for the purposes of placing reliance on that audit or review report in assessing the appropriateness of the source of the base financial information. This includes assessing the appropriateness of the materiality level applied in relation to the audit or review of the base financial information as compared to the materiality level assessed for purposes of the limited assurance engagement.
- Read the base financial information to which the audit or review report relates to establish if its stated basis of preparation (that is, its accounting policies) and time frame covered are appropriate; or
- Plan to perform further procedures as is considered necessary in the engagement circumstances.

Commented [SW28]: Refer agenda item 6.6, EY Appendix 2

A36:A37. As noted in paragraph A145, if the assurance practitioner has not previously performed an audit or review of the historical financial information, the assurance practitioner may instead consider performing an assurance engagement on the compilation of the pro forma historical financial information in accordance with ISAE (NZ) 3420¹³. If the assurance practitioner nevertheless agrees to perform an assurance engagement incorporating historical financial information they did not audit or review and requests access to the engagement documentation of another assurance practitioner and is unable to obtain such access, this may constitute a limitation of scope of the engagement. If the assurance practitioner is unable to obtain sufficient appropriate evidence by other means, the assurance practitioner considers the impact on the engagement and the assurance report.

A37:A38. In respect of the pro forma adjustments, the understanding obtained by the assurance practitioner may include:

- Identifying the pro forma adjustments.†

¹³ ISAE (NZ) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma financial Information Included in a Prospectus*

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- Understanding the event or transaction that the pro forma adjustments are intending to record;
- Understanding the methodology used by the responsible party in formulating the pro forma adjustments, including the basis for, and calculations underlying them.

Prospective Financial Information (Ref: Para. 26)

A38:A39. The understanding of the stated basis of preparation of the prospective financial information obtained by the assurance practitioner may include an understanding of:

- Its relevance, completeness, reliability, and understandability; and
- Any differences between the stated basis of preparation and that used in the most recent audited or reviewed historical financial information.

Obtaining Evidence

Designing and Performing Procedures (Ref: Para. 30-31)

A39:A40. When identifying areas where a material misstatement is likely to arise and designing procedures to address the risks identified, the assurance practitioner may take into consideration matters such as:

- The likelihood of intentional misstatement in the financial information;
- Applicable law or regulatory requirements or guidance with respect to the preparation or presentation of the financial information;
- The complexity and degree of subjectivity underlying calculations of information which are included in the financial information; and
- How the responsible party makes significant accounting estimates and the data on which they are based.

A40:A41. The nature, timing and extent of assurance procedures is influenced by various factors, for example:

- The identification of areas where material misstatement of the financial information is likely to arise and its impact on the sufficiency and appropriateness of evidence.
- The stated basis of preparation chosen by the responsible party.
- Whether some of the financial information has previously been audited or reviewed.
- Whether the financial information is prepared on the same basis as prior period audited or reviewed historical financial information, and if not, why not.
- Whether the source and time period covered by the financial information are appropriate and consistent with the stated basis of preparation.
- Whether misstatements considered immaterial in prior period audited or reviewed historical financial information need to be corrected.

A41:A42. In designing analytical procedures, the assurance practitioner determines the suitability of particular analytical procedures in relation to the financial information, taking into consideration the identified risks of material misstatement of the financial information.

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A42:A43. Analytical procedures may be effective when disaggregated data is readily available, or when the assurance 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.

A43:A44. The assurance practitioner's enquiries of the responsible party regarding significant accounting estimates may address:

- Whether the responsible party has appropriately applied the requirements of the stated basis of preparation relevant to material accounting estimates
- The method chosen for making material accounting estimates and whether:
 - It has been applied consistently;
 - It is appropriate when compared with the most recent audited or reviewed financial statements;
 - It reflects any changes in method from prior periods; and
 - Any changes in method are consistent with the stated basis of preparation.

A44:A45. It may be appropriate for the assurance practitioner to evaluate how the responsible party has considered alternative assumptions or outcomes in determining the accounting estimates, and why it has rejected them.

A45:A46. Other procedures in the context of material accounting estimates that the assurance practitioner may determine are appropriate in the circumstances may include:

- Testing how the responsible party made the accounting estimate and the data on which it is based.
- Evaluating whether the method of quantification used is appropriate in the circumstances.
- Evaluating whether the assumptions used by the responsible party are reasonable.

A46:A47. Other procedures the assurance practitioner may consider appropriate depending on the nature and circumstances of the engagement may include:

- Reviewing key contracts.
- Reconciling key recorded accounts and balances to supporting documentation.
- Re-performing key calculations such as accounting estimates and reconciling differences noted.
- Performing external confirmation procedures.

Pro forma historical financial information (Ref: Para. 32)

A47:A48. The assurance procedures on the pro forma historical financial information may include: (~~Ref: Para. 100(a)~~)

- Enquiring of the responsible party about:

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- The process and source from which the base historical financial information has been prepared and the reliability of the underlying accounting records to which the base historical financial information is agreed or reconciled;
- Whether all transactions for the time period have been recorded;
- Whether the base historical financial information has been prepared in accordance with the entity's accounting policies;
- Whether there have been any changes in accounting policies from the most recent audited or reviewed period, and, if so, how such changes have been dealt with;
- Its assessment of the risk that the source may be materially misstated as a result of error or fraud; and
- The effect of changes in the entity's business activities and operations;
- If the assurance practitioner has audited or reviewed the immediately preceding annual or interim historical financial information, considering the findings of such audit or review and whether these might indicate any issues with the preparation of the source from which the base financial information has been extracted;
- Corroborating the information provided by the responsible party in response to the assurance practitioner's enquiries, when the responses appear inconsistent with the assurance practitioner's understanding of the entity, or the engagement circumstances; and
- Comparing the source from which the base historical financial information has been prepared with the corresponding prior period historical financial information and, as applicable, the immediately preceding annual or interim historical financial information, and discussing significant changes with the responsible party.

A48:A49. When there is no audit or review report on the source from which the base financial information has been extracted, it is necessary for the assurance practitioner to perform procedures in relation to the appropriateness of that source (e.g., when historical financial information is extracted from financial statements or management accounts that were not audited or reviewed). Factors that may affect the nature and extent of these procedures include, for example:

- Whether the assurance practitioner has previously audited or reviewed the entity's historical financial information, and the assurance practitioner's knowledge of the entity from such engagement.
- How recently the entity's historical financial information was audited or reviewed.
- Whether the entity's financial information is subject to other periodic reviews by the assurance practitioner, for example, for purposes of meeting regulatory filing requirements.
- Whether the assurance practitioner is able to access documentation describing, and supporting, the source of the base historical financial information.

● ~~The type of assurance to be provided, i.e., limited assurance.~~

A49:A50. For the pro forma historical financial information to be meaningful, it is necessary that the pro forma adjustments be consistent with the stated basis of

Commented [SW29]: Unnecessary. The standard permits limited assurance only.

preparation. For example, in the context of a business combination this may involve consideration of such matters as:

- Whether differences exist between the acquiree's accounting policies and those of the entity; and
- Whether accounting policies for transactions undertaken by the acquiree that the entity has not previously entered into, are policies that the entity would have adopted for such transactions under its applicable financial reporting framework, taking into account the entity's particular circumstances.

A50-A51. Consideration of the appropriateness of the entity's accounting policies may also be necessary in some circumstances. For example, as part of the event(s) or transaction(s), the entity may propose to issue complex financial instruments for the first time. If this is the case, it may be necessary to consider:

- Whether the responsible party has selected appropriate accounting policies to be used in accounting for such financial instruments under its applicable financial reporting framework; and
- Whether it has appropriately applied such policies in preparing the pro forma historical financial information.

Prospective financial information

A51-A52. This SAE does not require the assurance practitioner to perform an audit or review of the source from which the base financial information has been extracted as part of the engagement, if such an audit or review has not already been performed. (Ref: Para. 33(c))

A52-A53. A high risk that there may be a significant difference between the prospective financial information and actual results may call into question the suitability and reasonableness of the assumptions used as the basis for the preparation of the prospective financial information and their characterisation as reasonable. (Ref: Para. 33 (e))

A53-A54. The assurance practitioner's enquiries of the responsible party ~~in accordance with paragraph 33(b)(v)~~ may also address the interaction of assumptions with each other. (Ref: Para. 35(b)(v))

A54-A55. The assurance practitioner's evaluation of the stated basis of preparation used by the responsible party may include: (Ref: Para. 37(a))

- The process for its selection and approval;
- The differences, if any to the basis of preparation, adopted in the most recent financial report; and
- Its suitability for the preparation of the prospective financial information, based on the stated purpose of the prospective financial information.

A55-A56. Prospective financial information ordinarily becomes more speculative and less verifiable as the length of the period covered increases. (Ref: Para. 38(a))

Pro Forma Prospective Financial Information (Ref: Para. 39)

A56-A57. The assurance procedures on the pro forma prospective financial information may include:

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- Enquiring of the responsible party about:
 - The process by which the base financial information has been prepared and the reliability of the underlying accounting records to which the base financial information is agreed or reconciled;
 - Whether all transactions for the time period have been recorded;
 - Whether the base financial information has been prepared in accordance with the entity's accounting policies;
 - Whether there have been any changes in accounting policies from the most recent audited or reviewed period and, if so, how such changes have been dealt with;
 - Its assessment of the risk that the base financial information may be materially misstated as a result of error or fraud; and
 - The effect of changes in the entity's business activities and operations;
- If the assurance practitioner has audited or reviewed the immediately preceding annual or interim financial information, considering the findings of such audit or review and whether these might indicate any issues with the preparation of the source from which the base financial information has been extracted;
- Corroborating the information provided by the responsible party in response to the assurance practitioner's enquiries when the responses appear inconsistent with the assurance practitioner's understanding of the entity or the engagement circumstances; and
- Comparing the base financial information with the corresponding prior period financial information and, as applicable, the immediately preceding annual or interim financial information, and discussing significant changes with the responsible party.

A57-A58. When there is no audit or review report on the source from which the base financial information has been extracted, the assurance practitioner's procedures may include those necessary to obtain sufficient appropriate evidence about that source. Factors that may affect the nature and extent of these procedures include, for example:

- Whether the assurance practitioner has previously audited or reviewed the entity's historical financial information and the assurance practitioner's knowledge of the entity from such engagement.
- How recently the entity's historical financial information was audited or reviewed.
- Whether the entity's financial information is subject to other periodic reviews by the assurance practitioner, for example, for purposes of meeting regulatory filing requirements.
- Whether the assurance practitioner is able to access documentation describing and supporting the source of the base historical financial information.

• ~~The type of assurance to be provided.~~

A58-A59. For the pro forma prospective financial information to be meaningful, it is necessary that the pro forma adjustments be consistent with the stated basis of preparation. In the context of a business combination, for example, this may involve consideration of such matters as:

Commented [SW30]: Only limited assurance permitted.

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- Whether differences exist between the acquiree's accounting policies and those of the entity: and-
- Whether accounting policies for transactions undertaken by the acquiree that the entity has not previously entered into are policies that the entity would have adopted for such transactions under its applicable financial reporting framework, taking into consideration the entity's particular circumstances.

A59:A60. Consideration of the appropriateness of the entity's accounting policies may also be necessary in some circumstances. For example, as part of the event(s) or transaction(s) the entity may propose to issue complex financial instruments for the first time. If this is the case, it may be necessary to consider:

- Whether the responsible party has selected appropriate accounting policies to be used in accounting for such financial instruments under its applicable financial reporting framework; and
- Whether it has appropriately applied such policies in preparing the pro forma prospective financial information.

Specialised Skills or Knowledge (Ref: Para. 40)

A60:A61. The assurance practitioner may decide to engage an expert to, for example:

- Evaluate the suitability of the stated basis of preparation.
- Assess the impact of contractual requirements on the pro forma prospective financial information.
- Evaluate pro forma adjustments, including whether they were prepared in accordance with the stated basis of preparation.
- Value new complex financial instruments.

A61:A62. The expert may be an assurance practitioner's internal expert (i.e., from the assurance practitioner's firm) or an external expert.

Written Representations

~~An illustrative representation letter is presented in Appendix 2.~~

Subsequent Events (Ref: Para. 45-46)

A62:A63. If the assurance practitioner becomes aware of events, transactions or errors after the document has been lodged with the appropriate regulatory body, the assurance practitioner considers the implications for the assurance report, as well as any obligation the assurance practitioner may have to inform the entity issuing the document.

Going Concern (Ref: Para. 47-48)

A63:A64. The assurance practitioner considers the appropriateness of the going concern assumption of the entity when the nature of the assurance engagement means that such an assessment could have implications for the assurance report. Ordinarily the assessment of going concern is appropriate for assurance engagements relating to historical financial information. Ordinarily in an engagement to report on prospective financial information, the going concern assumption is not relevant to the assurance practitioner's conclusion as the nature of the information is based on anticipated event(s)

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or transaction(s) that have not occurred and its preparation requires the exercise of considerable judgement by the responsible party.

A64-A65. If the assurance practitioner considers that performing a going concern assessment is relevant, the assurance practitioner ordinarily performs the assessment as if the events or transactions giving rise to the capital raising had occurred, and considers, for example, the entity's prepared future forecasts, future cash flow statements, the directors' working capital statements, and financial position and any other event(s) or condition(s) that are relevant to the assessment. For example, if the prospects for profitability are not supported by adequate positive future cash flows, then both the forecast financial performance statement and the ongoing viability of the entity are at risk. There may also be mitigating factors that in the assurance practitioner's professional judgement eliminate the going concern uncertainty. Mitigating factors may include:

- A review of recently prepared forecasts, cash flow statements, working capital statements or statements of financial performance;
- Unequivocal financial support provided from another entity which has the capacity to provide support;
- A signed underwriting agreement being in place; and/or
- The underlying event(s) or transaction(s) giving rise to the document (for example, a capital raising) which will, if completed successfully, raise sufficient funds to result in the entity becoming a going concern.

Mitigating factors need to be supported by appropriate written evidence. In such circumstances, the assurance practitioner evaluates and documents how the unequivocal financial support or proceeds from the fundraising issue will provide funding for future operations of the entity that will result in the entity becoming a going concern. Consideration is given to any proposed underwriting of any capital raising, and the circumstances in which the proposed underwriting may not occur. The assurance practitioner may also consider it necessary to request a written representation from the responsible party regarding the appropriateness of the going concern assumption.

A65-A66. If the assurance practitioner does not consider the going concern assumption to be appropriate to the entity, the implications for the assurance report depend on whether the responsible party has modified the basis of preparation of the financial information from that of a going concern basis:

- If the basis has not been modified, then the conclusion in the assurance report may need to be modified on the basis of the going concern assumption being inappropriate to the historical financial information; or
- If the basis has been modified, and the assurance practitioner considers the basis to be appropriate, then the assurance practitioner may still include an Emphasis of Matter paragraph in the assurance report to draw attention to the disclosure of this alternate basis.

Preparing the Assurance Report (Ref: Para. 50-51)

A66-A67. The assurance report may be prepared solely in respect of one type of financial information or may be a composite report where two or more types of financial

Commented [SW31]: Refer agenda item 6.2, Section F

Agenda item 6.6, EY Appendix 2
To address the need to consider the GC assumption assuming the capital raising is successful.
Based on ASAE 3450, para A53

Commented [MP32]: ? The word should is not our usual drafting convention – is it a requirement or a may?

information are the subject of the assurance report (for example historical and prospective financial information).

~~A67:A68.~~ In a composite report:

- (a) The different types of financial information should be clearly identified in the financial information, and separately referred to in the assurance report; and
- (b) The assurance report should clearly identify and segregate the work carried out ~~and the conclusion expressed~~ ~~and type of assurance expressed~~ on the different types of financial information.

Commented [SW33]: The only type of assurance permitted in this engagement is limited.

Assurance Report Content (Ref: Para. 52)

~~A68:A69.~~ ~~Appendix 3 contains an i~~ Illustrative assurance reports are set out in Appendix 1.

~~A69:A70.~~ In addition to the required basic elements, the assurance report may include a liability statement.

~~A70:A71.~~ The assurance practitioner may wish to refer to both this ~~proposed~~ standard and ISAE (NZ) 3000 (Revised) ~~or and the applicable~~ Review Engagement Standards, ~~as applicable~~, in the assurance report. The assurance practitioner is not precluded from doing so. For example, we have conducted our review of the historical financial information in accordance with ~~proposed~~ SAE 3450, *Assurance Engagements Over Financial Information Prepared in Connection with a Capital Raising* and NZ SRE 2410 (Revised), *Review of Financial Statements Performed by the Independent Auditor of the Entity*.

~~A71:A72.~~ 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. A description of the assurance practitioner's procedures in a limited assurance engagement is ordinarily therefore more detailed than in a reasonable assurance engagement. It also may be appropriate to include a description of the procedures that were not performed that would ordinarily be performed in a reasonable assurance engagement. However, a complete identification of all such procedures may not be possible because the assurance practitioner's understanding and assessment of the risks of material misstatement are less than in a reasonable assurance engagement. The assurance practitioner does not ordinarily detail all procedures in the assurance report.

~~A72:A73.~~ Factors to consider in making that determination and the level of detail to be provided include:

- (a) Circumstances specific to the entity (for example, the differing nature of the entity's activities compared to those typical in the sector);
- (b) Specific engagement circumstances affecting the nature and extent of the procedures performed; and
- (c) The intended users' expectations of the level of detail to be provided in the assurance report based on market practice, or applicable laws or regulations.

~~A73:A74.~~ In describing the procedures performed in a limited assurance report, it is important that they are written in an objective way but are not summarised 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 does not give the impression that an agreed-upon procedures engagement has been undertaken.

Other Information (Ref: Para. 56-57)

Consent

~~A75. Consent is ordinarily provided by way of a separate consent letter issued to the entity prior to the audit report.~~

Commented [SW34]: Moved to A79

~~A74:~~A75. The assurance practitioner ordinarily reads all other information included in the public document for consistency with the financial information. The assurance practitioner's reading of the other information does not infer any assurance on that information, as the assurance practitioner reads it only to establish if there are any material inconsistencies or misstatements which may impact the financial information.

~~A75:~~A76. The assurance practitioner ordinarily pays particular attention to the following disclosure areas within the published financial information:

- Other financial information not subject to the assurance engagement including:
 - Summarized financial information, for example, in tabular or graphical forms.
 - Disclosures related to other financial information that has been previously audited or reviewed.
 - Management discussion and analysis discussing other financial information.
- Disclosures about the nature of the events or transactions giving rise to the preparation of the published financial information.
- Qualitative and quantitative disclosures about the entity's plans and future outlooks.
- Key trends and factors related to the entity's industry or nature of operations that are likely to affect the entity's strategy or the timeframe over which achievement of the strategy is planned.
- Other relevant disclosures, for example:
 - Explanations of how revenue would be generated.
 - Nature and extent of related party disclosures.
 - Valuation of material assets.

~~A76:~~A77. If there are material inconsistencies, or material misstatements, related to the financial information which are not corrected by the responsible party, or the assurance practitioner does not consider the assurance report will be used for the intended purpose, the assurance practitioner ordinarily does not provide consent.

Consent (Ref: Para. 58-59)

~~A78. Consent is ordinarily provided by way of a separate consent letter issued to the entity prior to the assurance report.~~

Appendix 1

(Ref: Para. A16)

ILLUSTRATIVE ENGAGEMENT LETTER

The following is an example of an engagement letter based on the circumstances described below. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this [proposed] SAE. It will need to be varied according to individual engagement circumstances. It may be appropriate to seek legal advice that any proposed letter is suitable.

Engagement Circumstances are:

- ~~ABC Company proposes to undertake an equity raising exercise via initial public offering of ordinary shares of ABC Company.~~
- ~~Limited assurance engagement on historical financial information, pro forma historical financial information, prospective financial information and pro forma prospective financial information.~~
- ~~The assurance engagement will be performed by the auditor of the entity.~~
- ~~Prospective financial information will be prepared in accordance with Financial Reporting Standard 42 *Prospective Financial Statements* (FRS 42)~~

[Date]

[To the engaging party]¹⁴

[Objective and Scope of the engagement]

This purpose of this letter is to confirm our¹⁵ understanding of our mutual responsibilities arising as a result of our engagement to perform limited assurance services as outlined in this engagement letter relating to the *[describe the proposed published financial information, for example, the Product Disclosure Statement (PDS) and online register entry (Register Entry)]* proposed to be issued in accordance with *[for example, the Financial Markets Conduct Act 2013 and the Financial Markets Conduct Regulations 2014]* by ABC Company Limited (the “Company”) in relation to the *[proposed initial public offering of shares in the Company and listing of the Company on the NZX]¹⁶ (the “Offer”)]*. This engagement letter *[, including its appendices,]* sets out the services we will provide and the terms of our engagement, which take effect from *[date]*.

¹⁴ The addressee and references in the letter would be those that are appropriate in the circumstances of the engagement.

¹⁵ Throughout this letter, references to “you,” “we,” “us,” “our” and “management,” would be used or amended as appropriate in the circumstances.

¹⁶ If the offering involves a dual listing, reference to that dual listing would also be made, for example, *and foreign exempt listing on the ASX.*

Financial information

The following financial information will be included in the PDS and/or Register Entry (paragraphs a to d below) (collectively, the Financial Information):

Historical Financial Information being the

- Revenue, earnings before interest tax, depreciation, and amortisation (EBITDA) and net profit after tax / (loss after tax) for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2;
- Net cash flows from operating activities for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2; and
- Total assets, cash and cash equivalents, total liabilities, total debt and total debt including leases as at 31 December 20X0, 31 December 20X1 and 31 December 20X2

which are presented in the PDS, and which have been prepared in accordance with the basis of preparation set out in the financial statements for those years, being the recognition and measurement principles of *International Financial Reporting Standards* (IFRS) and *New Zealand Equivalents to International Financial Reporting Standards* (NZ IFRS) and the Company's adopted accounting policies, and calculated in accordance with the notes in the PDS.

Pro Forma Historical Financial Information being the:

- Pro forma revenue and pro forma EBITDA for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2 in the PDS;
- The pro forma revenue and pro forma EBITDA reconciliations for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2 in the *Reconciliation of non-NZ GAAP financial information* in the Register Entry; and
- Notes and assumptions to this pro forma historical financial information:

which have been prepared in accordance with the basis of preparation set out in the *[Description of pro forma adjustments]* in the Register Entry and the principles set out in the PDS.

Prospective Financial Information (PFI) being the:

- Prospective Consolidated Statements of Comprehensive Income for the years ending 31 December 20X3 and 31 December 20X4;
- Prospective Consolidated Statements of Cash Flows for the years ending 31 December 20X3 and 31 December 20X4;
- Prospective Consolidated Statements of Changes in Equity for the years ending 31 December 20X3 and 31 December 20X4;
- Prospective Consolidated Statements of Financial Position as at 31 December 20X3 and 31 December 20X4; and
- Notes and assumptions to these prospective consolidated statements of comprehensive income, changes in equity, financial position and cash flows;

which are presented in the *Prospective Financial Information* section in the Register Entry; and

- ~~The EBITDA reconciliations for the years ending 31 December 20X3 and 31 December 20X4 in the *Reconciliation of non-NZ GAAP financial information* in the Register Entry; and~~
- ~~Selected financial information from the prospective financial information above included in the PDS, being revenue, EBITDA, net profit after tax / (loss after tax), dividends paid on all equity securities, dividends paid post IPO, total assets, cash and cash equivalents, total liabilities, total debt, total debt including leases and net cash flows from operating activities.~~

Pro Forma PFI being the:

- ~~Pro forma revenue, pro forma EBITDA, pro forma net profit after tax and pro forma net cash flows from operating activities for the years ending 31 December 20X3 and 31 December 20X4 in the PDS; and~~
- ~~The pro forma revenue, pro forma EBITDA, pro forma net profit after tax and pro forma net cash flows from operating activities reconciliations for the years ending 31 December 20X3 and 31 December 20X4 in the *Reconciliation of non-NZ GAAP financial information* in the Register Entry;~~

~~which have been prepared in accordance with the basis of preparation set out in the *Description of pro forma adjustments* in the Register Entry and the principles set out in the PDS.~~

Review of Historical Financial Information

Objective of the Review Engagement

~~For the purpose of the Offer, you have requested that we review the Historical Financial Information. The Historical Financial Information does not comprise a full set of financial statements and will be prepared in accordance with the recognition and measurement principles of IFRS and NZ IFRS and the Company's adopted accounting policies. As such, it will not include all of the disclosures normally included in a complete set of financial statements. This basis of preparation will clearly be disclosed in the PDS and/or Register Entry.~~

~~Our conclusion on the Historical Financial Information will be included in a single report (together with the conclusions on the Pro Forma Historical Financial Information, the Prospective Financial Information and the Pro Forma Prospective Financial Information). *[An example report, which may vary from the final report based on our findings and conclusions, is attached as Appendix x].*~~

Scope of the Review Engagement

~~The scope of our review is limited to expressing our review conclusion on the Historical Financial Information presented to us by management and the Directors. Our review will be conducted in accordance with [proposed] SAE 3450 *Assurance over Financial Information Prepared in Connection with a Capital Raising* [and New Zealand Standard on Review Engagements (NZ SRE) 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity*, adjusted as necessary for the circumstances of this engagement], to perform procedures with the objective of providing us with a basis for reporting whether anything has come to our attention that causes us to believe that the Historical Financial Information, taken as a whole, is not prepared in all material respects, in accordance with the stated basis of preparation (as described in the PDS), being the~~

recognition and measurement principles contained in IFRS and NZ IFRS and the Company's adopted accounting policies.

Our review procedures will consist of making enquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures and does not, ordinarily, require corroboration of the information obtained.

The scope of a review of the Historical Financial Information is substantially less than the scope of an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly, our review is not intended to, and will not result in the expression of an audit opinion on the Historical Financial Information nor the fulfilling of any audit or other requirements.

NZ SRE 2410 (Revised) requires us also to comply with the ethical requirements relevant to the audit of the annual [consolidated] financial statements of the Company

Limited assurance procedures on the Pro Forma Historical Financial Information, PFI and Pro Forma PFI

Objective of the limited assurance engagement

For the purpose of the Offer, you have requested that we perform a limited assurance engagement on the Pro Forma Historical Financial Information, the PFI and the Pro Forma PFI.

The Pro Forma Historical Financial Information will be derived from the Historical Financial Information, after adjusting for the effects of the pro forma adjustments as determined by management and the Directors, which will be disclosed in the PDS and Register Entry.

The PFI will be prepared in accordance with [*Financial Reporting Standard 42 Prospective Financial Statements (FRS 42)*] based on the Directors' best estimate assumptions [*(as defined in FRS 42)*] which will be disclosed in the PDS and Register Entry.

The Pro Forma PFI will be derived from the PFI, after adjusting for the effects of the pro forma adjustments as determined by management and the Directors, which will be disclosed in the PDS and Register Entry.

Our conclusion on the Pro Forma Historical Financial Information, PFI and Pro Forma PFI will be included in a single report (together with the Historical Financial Information) and will comply with [proposed] SAE 3450 *Assurance over Financial Information Prepared in Connection with a Capital Raising* [and International Standard on Assurance Engagements (New Zealand) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*]. [*An example report, which may vary from the final report based on our findings and conclusions, is attached as Appendix y.*]

Scope of the limited assurance engagement

a. The scope of our limited assurance engagement is to perform our engagement in accordance with SAE 3450 [*and ISAE (NZ) 3000 (Revised)*] to enable us to express our limited assurance conclusion regarding the following:

i. Pro Forma Historical Financial Information:

Whether, based on our limited assurance engagement, anything has come to our attention that causes us to believe that the Pro Forma Historical Financial Information, as described in the PDS, has not been prepared, in all material respects, in accordance with the basis of preparation as described in the PDS and

~~Register Entry, being the recognition and measurement principles of IFRS and NZ IFRS and the Company's adopted accounting policies applied to the Historical Financial Information and the pro forma adjustments, as described in *Description of Pro Forma adjustments* in the Register Entry, as if those events had occurred as at the date of the Historical Financial Information.~~

~~ii. PFI:~~

~~Whether, based on our limited assurance engagement, anything has come to our attention that causes us to believe, in all material respects, that:~~

- ~~● The Directors' best estimate assumptions used in the preparation of the PFI do not provide a supportable and reasonable basis, as defined in FRS 42, for the preparation of the PFI; and~~
- ~~● The PFI:
 - ~~○ Is not prepared based on the Directors' best estimate assumptions as described in the *Supplementary Financial Information* in the Register Entry; and~~
 - ~~○ Is not prepared in accordance with the stated basis of preparation, as described in the *Supplementary Financial Information* in the Register Entry, being the recognition and measurement principles contained in IFRS and NZ IFRS and the Company's adopted accounting policies.~~~~

~~iii. Pro Forma PFI:~~

~~Based on our limited assurance engagement, nothing has come to our attention that causes us to believe, in all material respects, that:~~

- ~~● The Directors' best estimate assumptions used in the preparation of the Pro Forma PFI do not provide a supportable and reasonable basis, as defined in FRS 42, for the preparation of the Pro Forma PFI; and~~
- ~~● The Pro Forma PFI:
 - ~~○ Is not prepared based on the Directors' best estimate assumptions as described in the *Supplementary Financial Information* in the Register Entry; and~~
 - ~~○ Is not prepared in accordance with the stated basis of preparation, as described in the *Supplementary Financial Information* in the Register Entry, being the recognition and measurement principles contained in IFRS and NZ IFRS, the Company's adopted accounting policies, applied to the PFI and the pro forma adjustments, as described in *Description of Pro Forma Adjustments* in the Register Entry, as if those events or transactions had occurred as at the date of the PFI.~~~~

~~A limited assurance engagement consists primarily of making enquiries, primarily of persons responsible for the preparation of the Pro Forma Historical Financial Information, PFI, and Pro Forma PFI, and applying analytical and such other procedures as we considered necessary to enable us to reach our limited assurance conclusion. The procedures performed in a limited assurance engagement vary in nature and timing from, and are substantially less in extent than for, a reasonable assurance engagement. 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. Additionally, a limited assurance engagement does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly, we do not express an audit opinion.

Our procedures will include, but are not limited to¹⁷:

~~{Describe the procedures to be performed on the Pro Forma Historical Financial Information, the PFI, and the Pro Forma PFI, for example:~~

- ~~• Consideration of work papers, accounting records and other documents of ABC Company, including those dealing with the extraction of historical financial information of ABC Company from its audited financial statements;~~
- ~~• Enquiry of directors, management, personnel and advisors;~~
- ~~• Performance of analytical procedures~~
- ~~• Consistency of application of accounting policies.~~
- ~~• Examination, on a test basis, of evidence supporting the assumptions and amounts used in the PFI~~
- ~~• Consideration of the pro forma adjustments}~~

These procedures are illustrative only and not intended to be a comprehensive list of procedures we will perform. Our actual procedures will be based on our risk assessment and our professional judgement.

Our firm will not express any opinion as to whether the Company's prospective financial information or pro forma prospective financial information will be achieved, or warrant or guarantee any statements as to the future prospects of the Company.

~~{The responsibilities of {Directors}}~~

The ~~{Directors}~~ of the Company are responsible for:

- ~~(a) The selection of the financial information (including as to whether comparatives are included), preparation in accordance with the stated basis of preparation and presentation of the Financial Information in the Product Disclosure Statement and Register Entry.~~
- ~~(b) The contents, preparation and issue of the Product Disclosure Statement and Register Entry, including the completeness, accuracy and adequate disclosure of the Financial Information in the those documents;~~
- ~~(c) Determining the applicable time period to be covered by the Financial Information;~~
- ~~(d) Maintaining adequate accounting records and such internal control as is necessary to enable the preparation of the Financial Information that is free from material misstatement;~~
- ~~(e) The determination, selection, development, adequate disclosure and consistent application of the stated basis of preparation of the Financial Information in the Product Disclosure Statement and Register Entry;~~

¹⁷The procedures to be performed may be included in the body of the letter or in an attachment.

- ~~(f) Complying with FRS 42 in all aspects, including the Directors' best estimate assumptions on which the PFI and Pro Forma PFI are based;~~
- ~~(g) The inclusion in the Product Disclosure Statement and Register Entry of information regarding the sensitivity of the PFI to changes in key assumptions as the Directors consider necessary and appropriate;~~
- ~~(h) Complying with the requirements of all applicable laws and regulations in the preparation of the Financial Information, the Product Disclosure Statement and the Register Entry; and~~
- ~~(i) Providing us with
 - ~~(i) Access to all information of which directors, appropriate representatives of management and management are aware that is relevant to the engagement;~~
 - ~~(ii) Additional information that we may request from directors and management for the purposes of this engagement;~~
 - ~~(iii) Unrestricted access to persons within the Company from whom we determine it necessary to obtain evidence; and~~
 - ~~(iv) A listing of all known uncorrected misstatements in the Financial Information, together with an acknowledgement that you are responsible for confirming that such misstatements are immaterial.~~~~

~~We are not responsible and do not assume any liability for information or statements included in the PDS or Register Entry other than our assurance reports as outlined in this letter.]~~

Written Representations

~~In performing our scope of work, including our review and limited assurance engagements over the Financial Information, we will rely on information provided and representations made to us in the course of our work and representations provided by management to the Due Diligence Committee (DDC), unless we have reason to believe that those representations are false.~~

~~We will require written representations from the Directors that all material information relevant to the financial information within the Company's possession has been provided prior to the finalisation of our reports, and that no material changes have occurred between the date of our report and the date of lodgement of the proposed Offering Document which could affect our findings. You agree to provide us with written confirmation of representations made to us or the DDC in the course of our work or other matters as we request. Those written representations must be provided to us as near as practicable to, but not after, the date of our Independent Investigating Accountant's Report and limited assurance report on the Financial Information.~~

Consent

~~Prior to the issue of the proposed PDS, we will read the document in its entirety, to consider whether we consent to the form and context in which we are named as Investigating Accountant, and to consider whether we consent to the inclusion of our Independent Limited Assurance Report in the form and context in which it is included. Our consent will be issued on the letterhead of [firm name] and should then be quoted in the proposed PDS and full Register Entry.~~

~~The consent relates to the use of our name and report in the context of the whole proposed PDS and Register Entry. Our name or report, or any extract, may not be included in any analysts' briefings, in any display on an internet site or in any other media without our prior consent. [Firm name] will be giving the consent pursuant to section 60 of the *Financial Markets Conduct Act 2013* but will not otherwise be authorising or causing the issue of the PDS or Register Entry.~~

~~In the event of any misuse of our name or our reports, [firm name] reserves the right to withdraw its consent by written notification to the Company at its registered office and to Financial Markets Authority.~~

~~**{Other relevant information}**~~

~~**Participation as an Observer of the Due Diligence Committee**~~

~~*Tailor to the circumstances of the engagement*~~

~~**Materiality**~~

~~*Tailor to the circumstances of the engagement*~~

~~*Insert other information such as fee arrangements, billings, timeline for completion and other specific terms and conditions, as appropriate.*~~

~~**Acceptance of Engagement Terms**~~

~~We look forward to working closely with the directors of the Company in relation to this engagement.~~

~~Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the terms and conditions detailed in this engagement letter, including our respective responsibilities. If you wish to discuss any aspect of this letter, please do not hesitate to contact me.~~

~~Yours Faithfully~~

~~[Firm name]~~

~~[Name of partner]~~

~~[Partner]~~

~~**Client Acceptance**~~

~~I have read and understood the terms and conditions of this letter and I agree to and accept them for and on behalf of ABC Company, by whom I am duly authorised:~~

~~Signature~~

~~Name~~

~~Position~~

Appendix 2

(Ref: Para. A13)

ILLUSTRATIVE REPRESENTATION LETTER

The following is an example of a representation letter based on the circumstances described below. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this [proposed] SAE (NZ). It will need to be varied according to individual engagement requirements and circumstances.

Engagement Circumstances include:

- ~~ABC Company proposes to undertake an equity raising exercise via public offering of ordinary shares of ABC Company~~

Limited assurance engagement on historical financial information, pro forma historical financial information and prospective financial information

Entity Letterhead

Firm Name

Address

{Date}

Dear...,

~~This letter is provided in connection with your engagement to provide an independent assurance report on the financial information (comprising [describe the financial information, for example, historical financial information, pro forma historical financial information and prospective financial information] included in the [describe the published financial information, for example, the product disclosure statement and online register entry] of ABC Company Limited (the "Company") to be dated on or around [31 October 20XX], in accordance with the terms and conditions contained in your engagement letter dated [insert date].~~

~~Expressions and terms defined in the [published financial information] have the same meaning in this letter.~~

General Representations

~~We acknowledge that your engagement has been conducted in accordance with [proposed] Standard on Assurance Engagements 3450 Assurance over Financial Information Prepared in Connection with a Capital Raising [and, ISAE (NZ) 3000 (Revised) Assurance Engagements Other than Audits or Reviews of Historical Financial Information and NZ SRE 2410 (Revised) Review of Financial Statements Performed by the Independent Auditor of the Entity, as applicable].~~

~~We understand that your engagement involved a review of the financial information in order to provide limited assurance, and consequently the procedures performed were limited primarily to enquiries of Company personnel and analytical review procedures applied to the~~

~~financial information, and thus provide less assurance than in an audit. You have not performed an audit and accordingly you do not express an audit opinion.~~

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

- ~~● We have fulfilled our responsibilities for the preparation of the *[published financial information]* as set out in the terms of engagement dated *[insert date]*, including the preparation and presentation of all financial information contained therein.~~
- ~~● We are responsible for, and have established and maintained, an adequate internal control structure to facilitate the preparation of reliable financial information. We acknowledge our responsibility for the implementation and operation of accounting and internal controls systems that are designed to prevent and detect fraud and error.~~
- ~~● All material events and transactions have been properly recorded in the accounting records underlying the financial information.~~
- ~~● Any material changes that may have occurred between the date of the assurance report and *[the date of issuance of the published financial information]* have been advised to *[Firm Name]*.~~
- ~~● The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to any of the financial information under review. A list of uncorrected misstatements is attached to the representation letter.~~
- ~~● The Company's financial information has been prepared on a going concern basis. Having considered the circumstances likely to affect the Company during the next 12 months, and the circumstances that we know will arise thereafter, we are satisfied that the going concern basis of preparing the financial information is appropriate.~~
- ~~● All material financial information, financial records, related data and other information relevant to the historical financial information and pro forma historical financial information within the possession of the Company have been provided to *[Firm Name]* prior to the finalisation of the assurance report. *[Firm Name]* is entitled to rely on the information provided by the Company and to assume that the information provided is, to the best knowledge and belief of management and the directors, accurate and, except where otherwise indicated, complete.~~
- ~~● In the performance of the assurance engagement, *[Firm Name]* has been entitled to rely on the information provided by the Company and to assume that the information provided is, to the best knowledge and belief of management and the directors of the Company, accurate and, except where otherwise indicated, complete.~~
- ~~● There has been no fraud or suspected fraud involving:
 - ~~○ Management~~
 - ~~○ Employees who have a significant role in monitoring or implementing the Company's system of internal controls, or~~
 - ~~○ Others where the fraud could have a material effect on the financial information.~~~~
- ~~● *[Other than detailed in the *[published financial information]*], there have been no violations, or possible violations, of laws, regulations or contractual agreements, the effects of which should be considered when preparing the *[published financial information]*.*~~

- ~~[Other than detailed in the *[published financial information]*, there have been no communications from governmental or other regulatory authorities concerning non-compliance with, or deficiencies in, the Company's adherence to relevant legislation.~~
- ~~All material risks that may impact on the business have been adequately disclosed in the *[published financial information]* and considered in relation to their impact on the financial information.~~
- ~~[Other than those already adjusted for, and/or disclosed,] there have been no matters or events that have arisen, or been discovered, subsequent to the preparation of the financial information that would require adjustment to that financial information or disclosure in the *[published financial information]*.~~
- ~~There will not be any deficiencies or encumbrances attaching to the title of the Company's assets during the period covered by the financial information, other than those already reflected in the public document.~~
- ~~The Company has no plans or intentions that could materially affect the book value or classification of assets or liabilities during the period of the financial information that are not already reflected therein.~~
- ~~The Company's board of directors is not aware of any breach or non-compliance with the terms of any contractual arrangements, however caused, that could initiate claims against the Company, and which would have a material effect on the financial information.~~
- ~~[Include any other matters that the assurance practitioner considers appropriate.]~~

Historical financial information and pro forma historical financial information

~~With respect to the historical financial information and pro forma historical financial information of ABC Company *[describe the financial information or reference to its description in the engagement letter]*, we acknowledge our responsibility for the preparation and presentation of that financial information to which the independent assurance report relates. We confirm that, to the best of our knowledge and belief (having made such enquiries as we considered necessary for the purposes of appropriately informing ourselves):~~

- ~~ABC Company's historical financial information included in the *[published financial information]* has been prepared in accordance with the stated basis of preparation, *[describe the stated basis of preparation]* as described in section [X] of the *[published financial information]*.~~
- ~~ABC Company's pro forma historical financial information included in the *[published financial information]* has been prepared in accordance with the stated basis of preparation, *[describe the stated basis of preparation]* and the adopted accounting policies applied to:
 - ~~ABC Company's historical financial information, as described in section [X] of the *[published financial information]*; and~~
 - ~~Pro forma adjustments as described in section [X] of the *[published financial information]* as if those adjustments had occurred as at the date of ABC Company's historical financial information.~~~~

- ~~Disclosures not included in the [published financial information] with respect to the financial information have been determined by us to be not material to users of the [published financial information].~~

Prospective financial information

With respect to the [describe the financial information or reference to its description in the engagement letter], we acknowledge our responsibility for the preparation and presentation of that information, in accordance with the stated basis of preparation.

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

- ~~The [prospective financial information] is based on assumptions that:~~
 - ~~Are based on the best information that could be reasonably expected to be available at the time the [prospective financial information] is prepared;~~
 - ~~Are consistent among themselves;~~
 - ~~Are consistent with the current plans of ABC Company to the extent that is relevant;~~
 - ~~Are applied consistently; and~~
 - ~~Have a reasonable and supportable basis.~~
- ~~All liabilities which will arise out of the activities of ABC Company have been included in the [prospective financial information].~~
- ~~During your review we have made available to you all records and information available to us at the time and on which we have based our financial model.~~
- ~~The accounting policies adopted in preparing the [prospective financial information] for the years ending 31 December 20x3 and 31 December 20x4 are those that are expected to be used for reporting historical financial information for the corresponding period.~~
- ~~No transactions or events have occurred to the time of signing this letter that would necessitate adjustment to the [prospective financial information], or disclosure in the [published financial information], which we have not brought to your attention.~~
- ~~[Include any other matters that the assurance practitioner considers appropriate].~~

Conclusion

This representation is provided to [Firm Name], in connection with the [published financial information] dated [date] to be issued by ABC Company.

Yours faithfully

ABC Company Limited

Name

Director

Appendix 13

(Ref: Para. A69)

Illustrative Assurance Reports

The following illustrative assurance reports are for guidance only and are not intended to be exhaustive or applicable to all situations, should be tailored for specific engagement circumstances.

- Illustration 1: An Independent Limited Assurance Report where the full sets of financial information have been reviewed.
- Illustration 2: An Independent Limited Assurance Report where selected financial information has been reviewed.

Illustration 1: An Independent Limited Assurance Report where the full sets of financial information have been reviewed

Engagement Circumstances include the following For purposes of this illustrative report, the following circumstances are assumed:*

- The financial information includes full historical financial information, pro forma historical financial information, prospective financial information and pro forma prospective financial information.
- The financial information is published in the online product disclosure statement and Online Register Entry.
- An unmodified opinion was issued on the historical financial information.
- An unmodified limited assurance conclusion is issued on each type of financial information.

{Addressee}

{Date}

Dear {Directors}

INDEPENDENT ~~INVESTIGATING ACCOUNTANT'S~~ LIMITED ASSURANCE REPORT

To [Appropriate Addressee]

Conclusions

Historical financial information

Based on our review (which is a limited assurance engagement), nothing has come to our attention that causes us to believe that the Historical Financial Information of the ABC Company, is not prepared, in all material respects, in accordance with the stated basis of preparation, as described in section [x] of the PDS Supplementary Financial Information,

Commented [MP35]: Same question on drafting and the word should – the suggested changes are similar to what are in our other SAE illustrations?

being the recognition and measurement principles contained in ~~IFRS and New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS)~~ and the Company's adopted accounting policies, ~~and calculated in accordance with the notes in section [x] of the PDS.~~

Pro Forma historical financial information

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information, as described in the ~~PDS~~ Supplementary Financial Information, has not been prepared, in all material respects, in accordance with the stated basis of preparation as described in section [x] of the Supplementary Financial Information ~~the PDS and Register Entry~~, being the recognition and measurement principles ~~of IFRS and contained in NZ IFRS other than that it includes adjustments which have been prepared in a manner consistent with NZ IFRS that reflect (i) the recognition of certain items in periods different from the applicable period under NZ IFRS (ii) the exclusion of certain transactions that occurred in the relevant periods, and (iii) the impact of certain transactions as if they occurred [as at [insert date] and/or [from [insert date] and the Company's adopted accounting policies applied to the Historical Financial Information and the pro forma adjustments, as described in the Description of Pro Forma adjustments document in the Register Entry, as if those events had occurred as at the date of the Historical Financial Information.~~

Prospective financial information

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe, in all material respects, that:

- The Directors' best-estimate assumptions used in the preparation of the PFI do not provide a supportable and reasonable basis, as defined in Financial Reporting Standard No. 42 Prospective Financial Statements (FRS-42), for the preparation of the PFI; and
- The PFI:
 - Is not prepared based on the Directors' best-estimate assumptions as described in the *Supplementary Financial Information* in the Register Entry; and
 - Is not prepared in accordance with the stated basis of preparation, as described in the *Supplementary Financial Information* in the Register Entry, being the recognition and measurement principles contained in ~~IFRS and~~ NZ IFRS and the Company's adopted accounting policies.

Pro Forma Prospective financial information

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe, in all material respects, that:

- The Directors' best-estimate assumptions used in the preparation of the Pro Forma PFI do not provide a supportable and reasonable basis, as defined in FRS-42, for the preparation of the Pro Forma PFI; and
- The Pro Forma PFI:
 - Is not prepared based on the Directors' best-estimate assumptions as described in the *Supplementary Financial Information* in the Register Entry; and
 - Is not prepared in accordance with the stated basis of preparation, as described in the *Supplementary Financial Information* in the Register Entry, being the

recognition and measurement principles contained in NZ IFRS other than that it includes adjustments which have been prepared in a manner consistent with NZ IFRS, that reflect (i) the recognition of certain items in periods different from the applicable period under NZ IFRS (ii) the exclusion of certain transactions that occurred in the relevant periods, and (iii) the impact of certain transactions as if they occurred [as at [insert date] and/or [from [insert date]]. ~~IFRS and NZ IFRS, the Company's adopted accounting policies, applied to the PFI and the pro forma adjustments, as described in Description of Pro Forma Adjustments in the Register Entry, as if those events or transactions had occurred as at the date of the PFI.~~

The prospective financial information and pro forma prospective financial information have been prepared by management and adopted by the directors for the purpose of inclusion in the PDS and Register Entry. There is a considerable degree of subjective judgement involved in preparing prospective financial information since it relates to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different from the prospective financial information and pro forma prospective financial information since anticipated events or transactions frequently do not occur as expected and the variation may be material.

We express no opinion as to whether the prospective financial information or pro forma prospective financial information will be achieved.

Financial Information subject to assurance

(a) Historical Financial Information being the

- ~~Consolidated Statements of Comprehensive Income of ABC Company Revenue, earnings before interest tax, depreciation, and amortisation (EBITDA) and net profit after tax / (loss after tax)~~ for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2
- ~~Consolidated Statements of Changes in Equity Net cash flows from operating activities~~ for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2;
- ~~Consolidated Statements of Cash flows for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2;~~ and
- ~~Consolidated Statements of Financial Position Total assets, cash and cash equivalents, total liabilities, total debt and total debt including leases~~ as at 31 December 20X0, 31 December 20X1 and 31 December 20X2

which are presented in the ~~PDS~~ Register Entry, and which have been prepared in accordance with the stated basis of preparation set out in the financial statements for those years, being the recognition and measurement principles contained in of International Financial Reporting Standards (IFRS) and New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and the Company's adopted accounting policies, as described in the notes to the Supplementary Financial Information included in the Register Entry and ~~calculated in accordance with the notes in the PDS.~~

(b) Pro Forma Historical Financial Information being the:

- ~~Pro forma revenue and pro forma EBITDA for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2 in the PDS;~~

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- ~~• The pro forma revenue and pro forma EBITDA reconciliations for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2 in the *Reconciliation of non-NZ GAAP financial information in the Register Entry*; and~~
- Notes and assumptions to this pro forma historical financial information-Pro Forma Consolidated Statements of Comprehensive Income of ABC Company for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2;
- Pro Forma Consolidated Statements of Cash Flows for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2;
- Pro Forma Consolidated Statements of Changes in Equity for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2;
- Pro Forma Consolidated Statements of Financial Position as at 31 December 20X0, 31 December 20X1 and 31 December 20X2; and
- Notes and assumptions to these pro forma historical consolidated statements of comprehensive income, cash flows, changes in equity, and financial position

which have been prepared in accordance with the stated basis of preparation set out in the *Supplementary Financial Information* in the Register Entry, being the recognition and measurement principles contained in NZ IFRS other than that it includes adjustments which have been prepared in a manner consistent with NZ IFRS, that reflect (i) the recognition of certain items in periods different from the applicable period under NZ IFRS (ii) the exclusion of certain transactions that occurred in the relevant periods, and (iii) the impact of certain transactions as if they occurred [as at [insert date] and/or [from [insert date]]. ~~which have been prepared in accordance with the basis of preparation set out in the *Description of pro forma adjustments* in the Register Entry and the principles set out in the PDS.~~

(c) Prospective Financial Information being the:

- Prospective Consolidated Statements of Comprehensive Income for the years ending 31 December 20X3 and 31 December 20X4;
- Prospective Consolidated Statements of Cash Flows for the years ending 31 December 20X3 and 31 December 20X4;
- Prospective Consolidated Statements of Changes in Equity for the years ending 31 December 20X3 and 31 December 20X4;
- Prospective Consolidated Statements of Financial Position as at 31 December 20X3 and 31 December 20X4; and
- Notes and assumptions to these prospective consolidated statements of comprehensive income, changes in equity, financial position and cash flows,

which have been prepared in accordance with the stated basis of preparation set out in the *Prospective Financial Information* section in the Register Entry, being the recognition and measurement principles of NZ IFRS are presented in the *Prospective Financial Information* section in the Register Entry; and

- ~~• The EBITDA reconciliations for the years ending 31 December 20X3 and 31 December 20X4 in the *Reconciliation of non-NZ GAAP financial information in the Register Entry*; and~~

~~(d) Selected financial information from the prospective financial information above included in the PDS, being revenue, EBITDA, net profit after tax / (loss after tax), dividends paid on all equity securities, dividends paid post IPO, total assets, cash and cash equivalents, total liabilities, total debt, total debt including leases and net cash flows from operating activities.~~

~~(e)(d)~~ Pro Forma Prospective Financial Information being the:

- Pro Forma Prospective Consolidated Statements of Comprehensive Income for the years ending 31 December 20X3 and 31 December 20X4;
- Pro Forma Prospective Consolidated Statements of Cash Flows ~~Pro forma revenue, pro forma EBITDA, pro forma net profit after tax and pro forma net cash flows from operating activities~~ for the years ending 31 December 20X3 and 31 December 20X4 ~~in the PDS;~~ and
- Pro Forma Prospective Consolidated Statements of Financial Position as at 31 December 20X3 and 31 December 20X4; and
 - Notes and assumptions to these pro forma PFI consolidated statements of comprehensive income, cash flows, changes in equity, and financial position
 - The pro forma revenue, pro forma EBITDA, pro forma net profit after tax and pro forma net cash flows from operating activities reconciliations for the years ending 31 December 20X3 and 31 December 20X4 in the *Reconciliation of non-NZ GAAP financial information* in the Register Entry,

which have been prepared in accordance with the stated basis of preparation set out in the Supplementary Financial Information in the Register Entry, being the recognition and measurement principles contained in NZ IFRS other than that it includes adjustments which have been prepared in a manner consistent with NZ IFRS, that reflect (i) the recognition of certain items in periods different from the applicable period under NZ IFRS (ii) the exclusion of certain transactions that occurred in the relevant periods, and (iii) the impact of certain transactions as if they occurred [as at [insert date] and/or [from [insert date], with the basis of preparation set out in the *Description of pro forma adjustments* in the Register Entry and the principles set out in the PDS

~~Expressions and terms defined in the PDS and Register Entry have the same meaning in this report.~~

Our limited assurance engagement

We conducted our review, which is a limited assurance engagement, of the historical financial information in accordance with ~~[proposed]~~ Standard on Assurance Engagement (SAE) 3450, *Assurance Engagements ~~o~~Over Financial Information Prepared in Connection with a Capital Raising [and New Zealand Standard on Review Engagements (NZ SRE) 2410 (Revised) Review of Financial Statements Performed by the Independent Auditor of the Entity]*. SAE 3450 ~~[and NZ SRE 2410 (Revised)]~~ require us to conclude whether anything has come to our attention that causes us to believe that the Historical Financial Information, taken as a whole, is not prepared, in all material respects, in accordance with the stated basis of preparation.

We conducted our limited assurance engagement on the Pro Forma Historical Financial Information, Prospective Financial Information and Pro Forma Prospective Financial Information in accordance with ~~Standard on Assurance Engagement (SAE) 3450 [and International Standard on Assurance Engagements (New Zealand) 3000 (Revised) Assurance~~

Engagements Other than Audits or Reviews of Historical Financial Information (ISAE (NZ) 3000 (Revised))].

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

Our Independence and Quality Control

We have complied with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

[Assurance Firm name] applies Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements or Other Assurance or Related Services Engagements*, which requires us to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

[Assurance Firm name] does not have any interest in the outcome of the Offer other than the preparation of this limited assurance report and related due diligence procedures, for which normal professional fees will be received. We are independent of the Company. ~~*[In addition to our capacity as auditors, our firm carries out other services for the Company in the areas of Tax and Advisory. We have no relationship with or interest in the Company other than in the capacity of auditor. –The provision of these other services has not impaired our independence.]*~~

Commented [SW36]: Revised the example language to be one of no other interests. In light of the recent NAS provisions I do not think a tax advisory example is ideal.

Directors' responsibilities

The ~~at~~Directors of the Company are responsible for the preparation and presentation of the financial information, including its basis of preparation. This includes responsibility for compliance with applicable laws and regulations and such internal controls as the Directors determine are necessary to enable the preparation of Financial Information that is free from material misstatement, whether due to fraud or error.

The Directors of the Company are responsible for the preparation and presentation of the PFI and for the determination of assumptions that have a reasonable and supportable basis (as required by ~~Financial Reporting Standard No. 42 Prospective Financial Statements (FRS-42)~~).

The Directors of the Company are also responsible for the selection and determination of the pro forma adjustments made to the Historical Financial Information and the PFI and the preparation and presentation of the Pro Forma Historical Financial Information and the Pro Forma PFI on that basis.

Our responsibilities

Our responsibility is to express a limited assurance conclusion on the financial information based on the procedures performed and the evidence we have obtained.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for the preparation of the financial information and applying analytical and other procedures that we considered necessary to enable us to reach our limited assurance conclusion. The procedures performed in a limited assurance engagement vary in nature and

timing from, and are substantially less in extent than for, a reasonable assurance engagement. 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. Additionally, a limited assurance engagement does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

Disclaimer

Prospective investors should be aware of the material risks and uncertainties in relation to an investment in ABC Company, which are detailed in the *[Offer Document]*. We disclaim any assumption of responsibility for any reliance on this report, or on the prospective financial information or pro forma prospective financial information to which it relates, for any purpose other than that for which it was prepared. We have assumed, and relied, on representations from certain members of management of ABC Company, that all material information concerning the prospects and proposed operations of ABC Company has been disclosed to use and that the information provided to use for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

Restriction on Use

Without modifying our conclusions, we draw attention to the *[Offer Document]*, which describes the purpose of the financial information, being for inclusion in the ~~*[Published Financial Information]*~~ *PDS and Register Entry*. As a result, the financial information may not be suitable for use for another purpose.

[Other information (or other appropriate title)]

If the assurance practitioner considers it necessary, the assurance practitioner may include an "other information" paragraph in the report when information that is included in the published financial information is not covered by the assurance practitioner's report. Such a paragraph clarifies the responsibilities of the assurance practitioner for that other information.]

Commented [SW37]: Added to illustrate new requirement.

Consent

[Assurance Firm name] has consented to the inclusion of this assurance report in the *[Offer Document]* ~~*published financial information*~~ in the form and context in which it is included.

Liability

[Liability wording to be inserted for individual Assurance Firm practice, if applicable.]

[Name of lead assurance practitioner]

[Signature in the name of the ~~audit~~ assurance firm, the personal name of the lead assurance practitioner, or both, as appropriate]

|

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[Address]

[Date]

DRAFT

ILLUSTRATIVE ASSURANCE REPORT

The illustrative assurance report should be tailored for specific engagement circumstances.

Illustration 2: An Independent Limited Assurance Report where selected financial information has been reviewed. **Engagement Circumstances include the following:**

For purposes of this illustrative report, the following circumstances are assumed:

- The financial information includes selected historical financial information, pro forma historical financial information, prospective financial information and pro forma prospective financial information
- The financial information is published in the pProduct dDisclosure sStatement (PDS) and oOnline Register Entry (Register Entry).
- An unmodified opinion was issued on the historical financial information
- An unmodified limited assurance conclusion is issued on each type of financial information.

{Addressee}

{Date}

Dear {Directors}

INDEPENDENT LIMITED ASSURANCE REPORT

To *[Appropriate Addressee]*

Conclusions

Historical financial information

Based on our review (which is a limited assurance engagement), nothing has come to our attention that causes us to believe that the Historical Financial Information of the ABC Company, is not prepared, in all material respects, in accordance with the stated basis of preparation, as described in section [x] of the PDS, being the recognition and measurement principles contained in International Financial Reporting Standards (IFRS) and New Zealand International Financial Reporting Standards (NZ IFRS) and the Company's adopted accounting policies, ~~and calculated in accordance with the notes in section [x] of the PDS.~~

Pro Forma historical financial information

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information, as described in the PDS, has not been prepared, in all material respects, in accordance with the basis of preparation as described in the PDS and Register Entry, being the recognition and measurement principles of IFRS and NZ IFRS and the Company's adopted accounting policies applied to the Historical Financial Information and the pro forma adjustments, as described in the *Description of Pro Forma adjustments* document in the Register Entry, as if those events had occurred as at the date of the Historical Financial Information.

Prospective financial information

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe, in all material respects, that:

- The Directors' best-estimate assumptions used in the preparation of the PFI do not provide a supportable and reasonable basis, as defined in Financial Reporting Standard No.-42 Prospective Financial Statements (FRS-42), for the preparation of the PFI; and
- The PFI:
 - Is not prepared based on the Directors' best-estimate assumptions as described in the *Supplementary Financial Information* in the Register Entry; and
 - Is not prepared in accordance with the stated basis of preparation, as described in the *Supplementary Financial Information* in the Register Entry, being the recognition and measurement principles contained in IFRS and NZ IFRS and the Company's adopted accounting policies.

Pro Forma Prospective financial information

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe, in all material respects, that:

- The Directors' best-estimate assumptions used in the preparation of the Pro Forma PFI do not provide a supportable and reasonable basis, as defined in FRS-42, for the preparation of the Pro Forma PFI; and
- The Pro Forma PFI:
 - Is not prepared based on the Directors' best-estimate assumptions as described in the *Supplementary Financial Information* in the Register Entry; and
 - Is not prepared in accordance with the stated basis of preparation, as described in the *Supplementary Financial Information* in the Register Entry, being the recognition and measurement principles contained in IFRS and NZ IFRS, the Company's adopted accounting policies, applied to the PFI and the pro forma adjustments, as described in *Description of Pro Forma Adjustments* in the Register Entry, as if those events or transactions had occurred as at the date of the PFI.

The prospective financial information and pro forma prospective financial information have been prepared by management and adopted by the directors for the purpose of inclusion in the PDS and Register Entry. There is a considerable degree of subjective judgement involved in preparing prospective financial information since it relates to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different from the prospective financial information and pro forma prospective financial information since anticipated events or transactions frequently do not occur as expected and the variation may be material.

We express no opinion as to whether the prospective financial information or pro forma prospective financial information will be achieved.

Financial Information subject to assurance

Historical Financial Information being the

- Revenue, earnings before interest tax, depreciation, and amortisation (EBITDA) and net profit after tax / (loss after tax) for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2

Agenda item 6.7

- Net cash flows from operating activities for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2; and
- Total assets, cash and cash equivalents, total liabilities, total debt and total debt including leases as at 31 December 20X0, 31 December 20X1 and 31 December 20X2

which are presented in the PDS, and which have been prepared in accordance with the basis of preparation set out in the financial statements for those years, being the recognition and measurement principles of *International Financial Reporting Standards* (IFRS) and *New Zealand Equivalents to International Financial Reporting Standards* (NZ IFRS) and the Company's adopted accounting policies, and calculated in accordance with the notes in the PDS.

Pro Forma Historical Financial Information being the:

- Pro forma revenue and pro forma EBITDA for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2 in the PDS;
- The pro forma revenue and pro forma EBITDA reconciliations for the years ended 31 December 20X0, 31 December 20X1 and 31 December 20X2 in the *Reconciliation of non-NZ GAAP financial information* in the Register Entry; and
- Notes and assumptions to this pro forma historical financial information.

which have been prepared in accordance with the basis of preparation set out in the *Description of pro forma adjustments* in the Register Entry and the principles set out in the PDS.

Prospective Financial Information being the:

- Prospective Consolidated Statements of Comprehensive Income for the years ending 31 December 20X3 and 31 December 20X4;
- Prospective Consolidated Statements of Cash Flows for the years ending 31 December 20X3 and 31 December 20X4;
- Prospective Consolidated Statements of Changes in Equity for the years ending 31 December 20X3 and 31 December 20X4;
- Prospective Consolidated Statements of Financial Position as at 31 December 20X3 and 31 December 20X4; and
- Notes and assumptions to these prospective consolidated statements of comprehensive income, changes in equity, financial position and cash flows,

which are presented in the *Prospective Financial Information* section in the Register Entry; and

- The EBITDA reconciliations for the years ending 31 December 20X3 and 31 December 20X4 in the *Reconciliation of non-NZ GAAP financial information* in the Register Entry; and
- *Selected financial information* from the prospective financial information above included in the PDS, being revenue, EBITDA, net profit after tax / (loss after tax), dividends paid on all equity securities, dividends paid post IPO, total assets, cash and cash equivalents, total liabilities, total debt, total debt including leases and net cash flows from operating activities.

Pro Forma Prospective Financial Information being the:

- Pro forma revenue, pro forma EBITDA, pro forma net profit after tax and pro forma net cash flows from operating activities for the years ending 31 December 20X3 and 31 December 20X4 in the PDS; and
- The pro forma revenue, pro forma EBITDA, pro forma net profit after tax and pro forma net cash flows from operating activities reconciliations for the years ending 31 December 20X3 and 31 December 20X4 in the *Reconciliation of non-NZ GAAP financial information* in the Register Entry,

which have been prepared in accordance with the basis of preparation set out in the *Description of pro forma adjustments* in the Register Entry and the principles set out in the PDS

Expressions and terms defined in the PDS and Register Entry have the same meaning in this report.

Our limited assurance engagement

We conducted our review, which is a limited assurance engagement, of the historical financial information in accordance with ~~[proposed]~~ Standard on Assurance Engagements (SAE) 3450, *Assurance Engagements Over Financial Information Prepared in Connection with a Capital Raising [and New Zealand Standard on Review Engagements (NZ SRE) 2410 (Revised) Review of Financial Statements Performed by the Independent Auditor of the Entity]*. SAE 3450 ~~[and NZ SRE 2410 (Revised)]~~ require us to conclude whether anything has come to our attention that causes us to believe that the Historical Financial Information, taken as a whole, is not prepared, in all material respects, in accordance with the stated basis of preparation.

We conducted our limited assurance engagement on the Pro Forma Historical Financial Information, Prospective Financial Information and Pro Forma Prospective Financial Information in accordance with ~~Standard on Assurance Engagement (SAE) 3450 [and International Standard on Assurance Engagements (New Zealand) 3000 (Revised) Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE (NZ) 3000 (Revised))]~~.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

Our Independence and Quality Control

We have complied with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

~~[Assurance Firm name]~~ applies Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements or Other Assurance or Related Services Engagements*, which requires us to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

~~[Assurance Firm name]~~ does not have any interest in the outcome of the Offer other than the preparation of this limited assurance report and related due diligence procedures, for which

normal professional fees will be received. We are independent of the Company. ~~[In addition to our capacity as auditors, our firm carries out other services for the Company in the areas of Tax and Advisory. We have no relationship with or interest in the Company other than in the capacity of auditor. —The provision of these other services has not impaired our independence.]~~

Commented [SW38]: Revised the example language to be one of no other interests. In light of the recent NAS provisions I do not think a tax advisory example is ideal.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the financial information, including its basis of preparation. This includes responsibility for compliance with applicable laws and regulations and such internal controls as the Directors determine are necessary to enable the preparation of Financial Information that is free from material misstatement, whether due to fraud or error.

The Directors of the Company are responsible for the preparation and presentation of the PFI and for the determination of assumptions that have a reasonable and supportable basis (as required by ~~Financial Reporting Standard No. 42 Prospective Financial Statements (FRS-42)~~).

The Directors of the Company are also responsible for the selection and determination of the pro forma adjustments made to the Historical Financial Information and the PFI and the preparation and presentation of the Pro Forma Historical Financial Information and the Pro Forma PFI on that basis.

Our responsibilities

Our responsibility is to express a limited assurance conclusion on the financial information based on the procedures performed and the evidence we have obtained.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for the preparation of the financial information and applying analytical and other procedures that we considered necessary to enable us to reach our limited assurance conclusion. The procedures performed in a limited assurance engagement vary in nature and timing from, and are substantially less in extent than for, a reasonable assurance engagement. 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. Additionally, a limited assurance engagement does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

Disclaimer

Prospective investors should be aware of the material risks and uncertainties in relation to an investment in ABC Company, which are detailed in the *[Offer Document]*. We disclaim any assumption of responsibility for any reliance on this report, or on the prospective financial information or pro forma prospective financial information to which it relates, for any purpose other than that for which it was prepared. We have assumed, and relied, on representations from certain members of management of ABC Company, that all material information concerning the prospects and proposed operations of ABC Company has been disclosed to

use and that the information provided to use for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

Restriction on Use

Without modifying our conclusions, we draw attention to the [Offer Document], which describes the purpose of the financial information, being for inclusion in the ~~Published Financial Information~~ PDS and Register Entry~~7~~. -As a result, the financial information may not be suitable for use for another purpose.

Other information (or other appropriate title)

If the assurance practitioner considers it necessary, the assurance practitioner may include an "other information" paragraph in the report when information that is included in the published financial information is not covered by the assurance practitioner's report. Such a paragraph clarifies the responsibilities of the assurance practitioner for that other information.]

Commented [SW39]: Added to illustrate new requirement.

Consent

[Assurance Firm name] has consented to the inclusion of this assurance report in the [Offer Document]~~published financial information~~ in the form and context in which it is included.

Liability

[Liability wording to be inserted for individual Assurance Firm practice, if applicable.]

[Name of lead assurance practitioner]

[Signature in the name of the ~~audit~~ assurance firm, the personal name of the lead assurance practitioner, or both, as appropriate]

[Address]

[Date]

High level summary of considerations into the proposals of transparency in the auditor's report

Going Concern

1. *IAASB deliberations in relation to Going Concern (GC) Transparency in the auditor's report.*

As part of the IAASB's research in relation to the GC project proposal and project objectives, the IAASB considered the following:

- Input from stakeholders' responses to the Discussion Paper
- Feedback from the Expectation Gap roundtable held in September 2020
- Feedback from the Auditor Reporting post implementation review
 - EOM, OM, KAM, MURGC – purpose of paragraphs confusing, and distinctions not clearly understood
 - Calls for MURGC to contain information similar to KAM so a fuller story is told
 - Separate section on MURGC seen to be beneficial – separate section gives prominence and visibility
 - Mixed views – more vs length and complexity
- Academic Research

a. Considerations for not enhancing content in auditor's report – (extracted from content in May 2021 IAASB papers):

- Adding length to the auditor's report about going concern in all circumstances is likely to unbalance the report, overly focusing on issues and possibly even exacerbating the expectation gap.
- Lengthy disclosures about going concern may result in a self-fulfilling prophecy, making users nervous about going concern even in circumstances where going concern risks was low.
- The auditor does not conclude on the ability of the entity to continue as a going concern and should avoid additional wording that may imply otherwise
- Listing procedures performed is not overly useful as users are most interested in whether the auditor identified issues. The auditor is already required to report a MURGC or a KAM in the close call situations.
- Education may be a more effective tool to educate users on the scope of the auditor's work related to going concern.
- Further discussion on going concern in the auditor's report may become boilerplate in nature, which is not useful or meaningful.
- The auditing standard has sufficient reporting requirements, but the accounting standards need to be enhanced with respect to the going concern assessment

b. *Considerations for enhancing content in auditor's report - (extracted from content in May 2021 IAASB papers):*

- Enhanced transparency with stakeholders through the auditor's report strongly supported on responses to DP – considered to reduce knowledge and performance gap
- Strongly Supported at Expectation Gap roundtable:
 - greater transparency in the auditor's report would likely lead to different behaviours. For example, greater transparency can lead to higher accountability pressure as managers may expect their judgments to be scrutinized more comprehensively.
 - greater transparency may also help demonstrate the value of an audit.
- Supported through the Auditor Reporting Post-Implementation Review
- Monitoring Group: more information is needed about an entity when its going concern status is in the “no material uncertainty” stage so that there is less of a cliff edge once it is determined that there is a MURGC. Additionally the monitoring group noted communication is less likely to be useful if it includes ‘boilerplate’ wording.
- Additionally, as noted from the March 2022 IAASB minutes, a strong steer from the PIOB in relation to enhanced transparency in the auditor's report.

c. *Academic Research (internationally) – May 2021 IAASB papers*

Academic Research on going concern reporting (for a summary of findings from each report, refer to Attachment 1 to this appendix)

- *Academic study "Investor Reaction to Auditors' Going Concern Emphasis of Matter: Evidence from a Natural Experiment" (2019)*. Results from the study support the argument that vague Going Concern financial statement disclosures are more difficult to assess. The authors suggest that in order to increase the informativeness of financial statements, standard setters may consider improving the content of existing disclosures.
- *Academic study "Measuring the Market Response to Going Concern Modifications: The Importance of Disclosure Timing" (2018:)*: This study finds that the incremental effect of the market reaction to an opinion noting uncertainty about the entity's ability to continue as a going concern was weak and smaller in magnitude than that found previously in the academic literature.
- *Academic study "Going-concern Uncertainties in Pre-bankrupt Audit Reports: New Evidence Regarding Discretionary Accruals and Wording Ambiguity" (2008)*: This study found that a large percentage of opinions noting issues with the entity's ability to continue as a going concern are written ambiguously and with an overuse of conditional language.
- *Academic Study "A Synthesis of Research on Auditor Reporting on Going Concern Uncertainty: An Update and Extension" (2019)*: This study suggests that an auditor's report noting uncertainty about an entity's ability to continue as a going concern is unlikely to send a company into bankruptcy. However, there are studies that found associations between auditor reports noting issues with a company's ability to continue as a going concern and increases in companies' cost of equity capital, downgrades in credit ratings, share price consequences to

equity owners, investor perceptions about audit quality, and subsequent auditor litigation.

2. *IAASB decisions in relation to Going Concern Transparency in the auditor's report (for purposes of project proposal).*

Based on deliberations of the matters as outlined in this paper, a project proposal to revise ISA 570 was approved by the IAASB with one of the **project objectives** from the project proposal being to enhance transparency with respect to the auditor's responsibilities and work related to going concern where appropriate, including strengthening communications and reporting requirements. One of the detailed **actions** as agreed in the project proposal was to **enhance** the requirements and application material in ISA 570 (Revised), where appropriate, to increase transparency in the auditor's report about the auditor's responsibilities and work related to going concern.

3. *Current Status of IAASB project in relation to enhanced transparency in the auditor's report*

Refer to agenda 7.3 for a summary of current IAASB proposals being deliberated by the IAASB.

4. *Deliberations as it relates to Going Concern Transparency in the auditor's report.*

a. *The NZAuASB's submission to the IAASB's Discussion Paper*

- At our roundtable event, participants were evenly split as to whether or not additional transparency is needed in the auditor's report (34% thought yes, 31% thought no and 34% agreed sometimes). As part of the NZAuASB's outreach related to the auditor reporting post implementation review project, the Board heard from users of the auditor's reports that auditors communicate well on matters related to going concern. As a result of the COVID-19 pandemic, in New Zealand we have seen an increase in the number of KAMs related to going concern, in "close call" situations. As part of this broader outreach, we have also heard from users that lengthy audit reports that include standardised wording are not useful, i.e., few users read the parts of the audit report that focus on management's and/or the auditor's responsibilities that include generic standardised text. In fact, some investors we spoke to, do not read the auditor's report at all, other than to glance at who the auditor was. They take some confidence in the fact that an audit was conducted but do not overly rely on the contents of the audit report. Based on this feedback, the NZAuASB considers that adding additional reporting requirements into the auditor's report that is overly standardised is unlikely to have an impact on narrowing the expectation gap.
- Auditors considered that the reporting requirements relating to going concern have become overly complex as a result of the introduction of KAMs as well as a separate section for a material uncertainty related to going concern (MURGC) or emphasis of matter (EOM) paragraphs. If the auditor is reporting a MURGC, by nature it is a KAM, and therefore practitioners are of the view that it is appropriate to report the same details as are reported for a KAM, by including detail on the procedures undertaken i.e., how the MURGC was addressed by the auditor.

b. *Academic Research (Australia)*

AUASB research report 4, October 2022 contains a summary from Robyn Moroney of evidence from existing research. This summary is contained in Attachment 2 and references Carson et al and Geiger et al, the later was considered in the IAASB's deliberations. This research does not provide much in terms of implications of transparency in reporting that would dispel where the IAASB have landed in their information gathering.

5. *Overall commentary on enhanced transparency as it relates to Going Concern*

The staff are generally supportive of enhancements to transparency in order to advance the auditor reporting objectives. Staff have concerns regarding Boilerplate disclosures (as noted by the monitoring group and other stakeholders in their feedback to the IAASB); and differential reporting particularly for 'close call' scenarios.

Fraud

6. *IAASB deliberations in relation to Fraud Transparency in the auditor's report.*

As part of the IAASB's research in relation to the Fraud project proposal and project objectives, the IAASB considered the following:

- Input from stakeholders' responses to the Discussion Paper
- Feedback from the Expectation Gap roundtable held in September 2020
- Feedback from the Auditor Reporting PIR

a. *Considerations for not enhancing content in auditor's report – (extracted from content in April 2021 and July 2021 IAASB papers):*

- Increasing the length and complexity of the auditor's report may reduce user understandability.
- Investors do not always read the auditor's report in detail, and therefore, enhanced requirements in the auditor's report may not be effective in narrowing the knowledge gap.
- It could also help reduce the performance gap, as having to make public what work has or has not been performed can help focus an auditor's attention on planning and performing the most appropriate procedures
- Education may be a more effective tool to educate users on the scope of the auditor's work related to fraud.
- Requiring additional disclosures in the auditor's report may become perfunctory and boilerplate over time, and therefore will not hold informational value for users.
- Have unintended consequences of undermining the effectiveness of the auditor's procedures by disclosing what the auditor does to all parties, including fraudsters

b. *Considerations for enhancing content in auditor's report - (extracted from content in April 2021 and July 2021 IAASB papers):*

- Enhanced transparency with stakeholders through the auditor's report strongly supported on responses to DP – considered to reduce knowledge and performance gap, however broad agreement that it should not be boilerplate in nature. Additionally, while respondents (NSS and firms) proposed greater transparency in the auditor's report regarding identified significant control deficiencies and weaknesses relating to fraud they noted that if the auditor was required to provide more transparency in the auditor's report on fraud, this should be coupled with more transparency on the responsibility for the prevention and detection of fraud by TCWG and management.
- Strongly Supported at Expectation Gap roundtable:
 - greater transparency in the auditor's report would likely lead to different behaviours. For example, greater transparency can lead to higher accountability pressure as managers may expect their judgments to be scrutinized more comprehensively.
 - greater transparency may also help demonstrate the value of an audit.
- may be helpful in enhancing the degree of confidence of intended users in the financial statements
- Supported through the Auditor Reporting Post-Implementation Review
- Monitoring Group

c. *Academic Research (internationally)*

No Academic Research on fraud reporting noted in IAASB papers.

7. *IAASB decisions in relation to Fraud Transparency in the auditor's report (for purposes of project proposal).*

Based on deliberations of the matters as outlined in paragraph 9 of this paper, a project proposal to revise ISA 240 was approved by the IAASB with one of the **project objectives** from the project proposal being to enhance transparency on fraud-related procedures where appropriate, including strengthening communications with TCWG and the reporting requirements in ISA 240 and other relevant ISAs. One of the detailed **actions** as agreed in the project proposal was to **explore** revisions to requirements and enhancements to application material to determine the need for more transparency in the auditor's report describing fraud-related matters, and if needed, how this may be done.

8. *Deliberations as it relates to Fraud Transparency in the auditor's report.*

a. *The NZAuASB's submission to the IAASB's Discussion Paper*

Some participants called for greater transparency from auditors in relation to significant deficiencies in an entity's internal controls identified during the audit. Views were expressed that it may be appropriate for auditors to report significant internal control deficiencies as a key audit matter (KAM) in the auditor's report. Others called for additional information to be disclosed by management, e.g., management's assessment of risk of fraud. Such additional information, where

relevant, could prompt commentary from the auditor in their report. Requiring disclosure of materiality judgements in the audit report was another suggestion. Opposing views were that audit reports are already too long and too difficult for users to understand. Concerns were also raised about the implications for auditor liability in requiring additional material in the report, although the NZAuASB recognises this is a jurisdictionally specific issue. There was consensus however that if there is more to be said in the auditor report it has to be bespoke and tailored to the audited entity and not involve the use of boilerplate statements with little specificity to the entity.

b. The XRAP's feedback, when asked for views on the various options explored by the IAASB's task force:

Lyn Provost, Chair of the IAASB Taskforce on Fraud joined the XRAP July 2022 meeting to seek NZ views on the five options being explored by the Taskforce. In summary the options were:

- (a) Describing the auditor's approach to fraud in the audit report (UK model–new).
- (b) Describe what are the audit fraud risks, and the auditor's response to these? (Netherlands model).
- (c) Option (b)+ auditor's findings and observations.
- (d) Status quo –using Key Audit Matters (KAM) for fraud risks (can be boilerplate).
- (e) Reporting on significant deficiencies in internal control (more information, popular).

Options (c) and (e) had the most international support during outreach undertaken at that time.

Various comments raised included a discussion on what is material fraud? Can be split into actual, suspected or potential fraud. It was noted that currently auditors may report matters as a KAM if material. If immaterial, auditor discusses with management and reviews next year.

It was noted that changing views on internal controls has led to renewed interest at the IAASB. It was noted that Audit reports have lengthened over time, and the KAMs are being read by users.

It was noted that there is no public assertion by directors on fraud in NZ. No current appetite at IASB to look at this topic.

c. Academic Research (Australian Academics)

The recent AUASB research report 8, October 2022 does not provide any academic research with reference to transparency in reporting in relation to fraud.

9. *Current Status of IAASB project in relation to enhanced transparency in the auditor's report*

Since the project proposal's actions was to 'explore' revisions and the IAASB was mixed in their views, the IAASB embarked on targeted user interviews noting the importance of obtaining input from users of financial statements before deciding on a path forward.

After obtaining user feedback and in considering the matters referred to in paragraph 9 of this paper, the IAASB Task Force proposed to enhance transparency in the auditor's report on fraud by including a separate section that encompasses a description of:

- (a) The auditor's responsibilities as it relates to fraud in the audit of the financial statements;
- (b) The identified and assessed fraud risks and the auditor's response to the assessed risks; and
- (c) Identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud in the financial statements¹.

As of September 2022, there is consensus by the IAASB on there being a separate section in the auditor's report with greater transparency in reporting but it's still very unclear as to what that may look like. The IAASB was largely supportive of (a) and (b) above, but there were mixed views as to the matter referred to in (c) above. We will continue to monitor this situation.

10. *Overall commentary of enhanced transparency as it relates to Fraud*

Currently too early to assess as the IAASB is still in early stages of considerations.

¹ User feedback as outlined and discussed at the September 2022 IAASB meeting indicated strong support for this. Additionally, feedback from stakeholders to the Discussion Paper also supported this but noting that this should be coupled with more transparency on the responsibility for the prevention and detection of fraud by TCWG and management

Attachment 1

Going Concern Academic Research Literature Review (May 2021 IAASB papers)

Introduction

The purpose of this report is to present a summary of the academic research performed on the topic of going concern to date. This report:

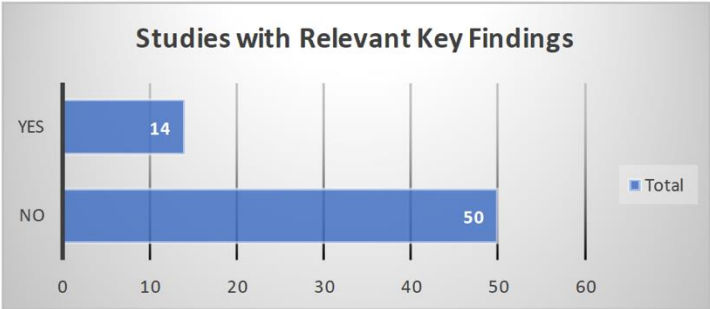
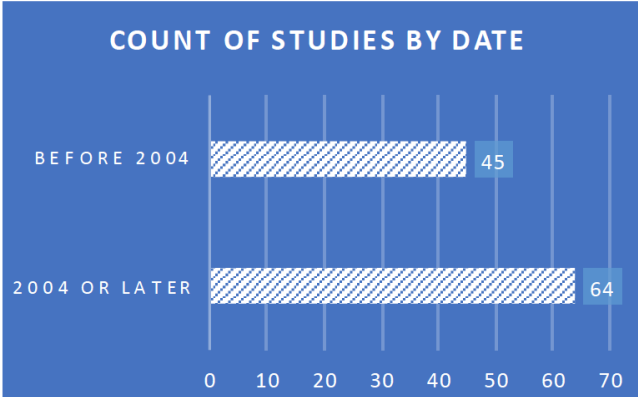
1. Outlines the scope of the academic research and other literature review undertaken to date; and
2. Identifies key findings and aspects of the academic research literature review relevant for the going concern information gathering activities.

Scope of the Academic Research and Other Literature Review

The compilation of the initial list of research was outsourced to a team of researchers from the University of Dayton, School of Business Administration and Department of Accounting. This initial list was compiled by searching for published studies which either in their abstract, or in their title available on electronic databases accessed via the internet, included key words on a range of issues around going concern and/or International Standard on Auditing (ISA) 570, *Going Concern*.

To this initial list of research, certain other published studies and literature were added based on feedback from Travis Holt, PhD (KPMG Academic Fellow). From this list, 45 reports were scoped out because they predated the last major revision to ISA 570 in 2004.

Of the remaining 64 reports, 14 reports were determined to have findings that presented new information and were relevant to standard setting and the objectives of this going concern initiative.



The following pages summarize key findings included in the relevant reports, organized by broad category.

Key Findings from Academic Research

Theme	Findings
Going Concern Indicators	<p><u>Academic study "Greater Reliance on Major Customers and Auditor Going-Concern Opinions" (2020)</u></p> <ul style="list-style-type: none"> ➤ This study finds that increased reliance on major customers in distressed firms is associated with higher rates of opinions noting uncertainty about an entity's ability to continue as a going concern (GCOs). ➤ Overall, the study indicates that supply chain relationships are relevant business risks associated with auditors' going-concern assessments. <p><u>Academic study "ISA 570: Italian Auditors' and Academics' Perceptions of the Going Concern Opinion" (2019)</u></p> <ul style="list-style-type: none"> ➤ This study identifies going concern indicators that are regarded by Italian partners in auditing firms and Italian academics as being the most important. ➤ Financial indicators including net liability or net current liability position, fixed term borrowings approaching maturity, and indications of withdrawal of financial support by creditors were among the most important GCO indicators. Important operating indicators included management's intention to liquidate the entity and losses of major markets, key customers, franchises, licenses, or principal suppliers.
Professional Skepticism	<p><u>Academic study "Are Auditors Professionally Skeptical? Evidence from Auditors' Going-Concern Opinions and Management Earnings Forecasts" (2014)</u></p> <ul style="list-style-type: none"> ➤ This study examines auditors' ability to exercise skepticism related to managements' earnings forecast when assessing going concern. ➤ They find that management earnings forecasts are negatively associated with both auditors' GCOs and subsequent bankruptcy. ➤ Using a bankruptcy prediction model, they find that the weight auditors put on management forecasts in the going-concern decision is not significantly different from the model. ➤ Compared with the bankruptcy model, auditors assign a lower weight to management forecasts they perceive as being less credible. ➤ The study suggests auditors are being professionally skeptical about management earnings forecasts when making going-concern decisions.
Going Concern Reporting	<p><u>Academic study "Investor Reaction to Auditors' Going Concern Emphasis of Matter: Evidence from a Natural Experiment" (2019)</u></p> <ul style="list-style-type: none"> ➤ This study uses the adoption of International Standards on Auditing by Canada in 2010 to examine investor reactions to a going concern emphasis of matter (GC-EOM) paragraph in the auditor's report over audited financial statement (GC-FS) disclosures. ➤ Key Findings were: <ul style="list-style-type: none"> ○ Firms with first-time GC-FS disclosures experienced significantly lower abnormal returns than comparable firms without GC-FS disclosures. The investor reaction to GC-FS disclosures did not

Theme	Findings
	<p>change after the implementation of the new auditing standard requiring a GC-EOM. This result, however, does not take into account the severity level of GC-FS disclosures.</p> <ul style="list-style-type: none"> ○ Conditioning on the linguistic severity of the GC-FS (weak and severe), they first document a negative price response to severe but not weak GC-FS before the regulatory change. This implies that investors react to financial statement disclosures and account for their degree of interpretability in the absence of a GC-EOM. When the uncertainty disclosure is accompanied by a GC-EOM, they find incremental negative abnormal returns and lower abnormal trading volume only for weak GC-FS. Collectively, these findings imply that an emphasis of matter paragraph in the auditor's report can have incremental value to investors. ○ The results support the argument that vague going concern financial statement disclosures are more difficult to assess, as well as the call by the International Auditing and Assurance Standards Board (2014) to clarify IFRS disclosure requirements relating to going concern uncertainties. The authors suggest that in order to increase the informativeness of financial statements, standard setters may consider improving the content of existing disclosures. <p><u>Academic study "Measuring the Market Response to Going Concern Modifications: The Importance of Disclosure Timing" (2018)</u></p> <ul style="list-style-type: none"> ➤ This study finds that the majority of GCOs are issued concurrently with earnings announcements (EAs) and that EAs in the year of new GCOs elicit large negative market reactions. ➤ By disentangling the informational content of the EA and the GCO, they find that the incremental effect of the market reaction to the GCO is weak and smaller in magnitude than that found previously in the academic literature. <p><u>Academic study "Going-concern Uncertainties in Pre-bankrupt Audit Reports: New Evidence Regarding Discretionary Accruals and Wording Ambiguity" (2008)</u></p> <ul style="list-style-type: none"> ➤ This study examined audit reports of Spanish companies in the year prior to their bankruptcy. ➤ They found that companies receiving a GCO present negative discretionary accruals (a measure of audit quality), in line with the reversal of previous earnings overstatements prompted by stricter auditors. Conversely, the lack of a GCO is consistent with slightly positive (or near zero) accruals that cover up upward manipulation not reversed by the auditor. ➤ They also found that a large percentage of GCOs are written ambiguously and with an overuse of conditional language. ➤ "Our evidence supports the need to strengthen the enforcement mechanisms that permit a better control of auditor behavior. The mere

Theme	Findings
	<p>existence of a Going Concern audit standard is not enough to avoid auditor abuses or to improve the quality of auditor reporting in code-law countries like Spain.”</p>
<p>The Effects of Fees on Going Concern Reporting</p>	<p><u>Academic study "Auditor Fees and Going-Concern Reporting Decisions on Bankrupt Companies: Additional Evidence" (2015)</u></p> <ul style="list-style-type: none"> ➤ This study investigates the impact of both audit and non-audit fees on auditors’ propensity to issue GCOs. ➤ They found no relation between audit or non-audit fees and auditors’ going concern decisions. <p><u>Academic study "Auditor Fees and Auditor Independence: Evidence from Going Concern Reporting Decisions" (2013)</u></p> <ul style="list-style-type: none"> ➤ This study investigates the impact of both audit and non-audit fees (both current and future) on auditors’ propensity to issue GCOs to financially distressed clients. ➤ They found that auditors issue significantly fewer GCOs in the current period to clients that pay higher subsequent total fees. ➤ Consistent with arguments that auditor reporting may have become less conservative in years following the initial fee disclosure period of 1999–2003 (Feldmann and Read 2010), they find that non-audit fees in the current year are also significantly negatively associated with GCOs during 2004-2006. <p><u>Academic study "Audit Fees, Non-Audit Fees and Auditor Going-Concern Reporting Decisions in the United Kingdom" (2008)</u></p> <ul style="list-style-type: none"> ➤ This study investigates the impact of both audit and non-audit fees on auditors’ propensity to issue GCOs to financially distressed clients in the UK. ➤ In financially distressed clients, they find a positive relation between audit fees and the issuance of GCOs. However, they find a negative relation between non-audit fees and going-concern opinions.
<p>Effects of Auditor Characteristics on GCOs</p>	<p><u>Academic study "Auditor Size and Going Concern Reporting " (2018)</u></p> <ul style="list-style-type: none"> ➤ This study finds that auditor size is positively associated with auditors’ propensity to issue GCOs after controlling for clients’ financial health. ➤ They found that Big 4 auditors are more likely than mid-tier auditors to issue GCOs to distressed clients.

Theme	Findings
	<p>➤ They also found that the Big 4 are less likely to issue false-positive (Type I error) GCOs, and no evidence that the Big 4 are more or less likely to fail to issue a GCO to a client that eventually files for bankruptcy (Type II error).</p> <p><u>Academic study "Auditor-in-Charge Characteristics and Going-concern Reporting" (2014)</u></p> <p>➤ This study investigates the association between Auditor-in-charge characteristics and auditors' propensity to issue a GCO in Sweden.</p> <p>➤ They found a negative relation between the number of audit assignments and the likelihood to issue a GCO. This finding holds even when restricted to Big 4 auditors.</p> <p>➤ They also found a negative relation between the age of the auditor-in-charge and the likelihood to issue a GCO.</p> <p><u>Academic study "Auditor Differentiation, Mitigating Management Actions, and Audit-Reporting Accuracy for Distressed Firms" (2011)</u></p> <p>➤ This study investigates the association between industry specialization and audit methodology and auditors' propensity to issue a GCO.</p> <p>➤ They found specialist auditors are more likely to issue a GCO for soon-to-be bankrupt companies when management undertakes strategic turnaround initiatives.</p> <p>➤ They found that firms using a business risk methodology are less likely to issue a GCO for a company that subsequently goes bankrupt when a client undertakes operating initiatives such as cost-cutting in response to financial distress.</p> <p>➤ They found very strong evidence that auditors, irrespective of their type, are less likely to issue a GCO for clients that subsequently go bankrupt when the client is planning on raising cash in the short term.</p>
<p>Overall - Synthesis of Going Concern Research</p>	<p><u>Key points from "A Synthesis of Research on Auditor Reporting on Going Concern Uncertainty: An Update and Extension" (2019)</u></p> <p>➤ The issuance of a GCO is primarily determined by characteristics of the audited client company.</p> <p>➤ Among the most notable findings in the recent literature is that clients are more likely to receive a GCO if they:</p> <ol style="list-style-type: none"> i. Have financial statement filing delays (Cao et al. 2018), suggesting that client delays in filing their financial statements is seen as a sign of risk or financial distress. ii. Employ an innovative business strategy (e.g., often-fluctuating product mix, rapid and sporadic growth patterns) as opposed to

Theme	Findings
	<p>firms that are cost-leaders with a narrow and constant mix of products, and cautious incremental growth patterns (Chen et al. 2017).</p> <p>iii. Engage in controversial activities related to customers, employees, the environment or the community (Koh and Tong 2013).</p> <p>iv. Are overly optimistic, for example have overly optimistic financial forecasts (Feng and Li 2014), have over-confident management (Kim 2017), and report financial results less conservatively (DeFond et al. 2016).</p> <p>v. Have a new CFO (Zaher 2015; Beams et al. 2016).</p> <p>vi. Have a poor workplace environment for employees (Huang et al. 2017).</p> <p>vii. Fail to remediate internal control deficiencies (Hammersley et al. 2012).</p> <p>viii. Have a CEO with friendship ties to audit committee members (Bruynseels and Cardinaels 2014)</p> <p>➤ SFPMs (like Altman Z and models of bankruptcy prediction) use public data and appear to be better predictors of company failure than GCOs (Gerakos et al. 2016; Alareeni and Branson 2017). From a practical perspective, a well-developed SFPM could serve as an effective decision aid for auditors concerned with making more accurate going-concern judgements.</p> <p>➤ Receiving a going concern opinion increases a financially distressed company's probability of bankruptcy only by an average of 0.84 percent in the US, suggesting that, from a practical perspective, auditors and firms, generally, do not need to be overly 5 concerned with the prospect of a GCO sending a company into bankruptcy – i.e., the “self-fulfilling prophesy” hypothesis (Gerakos et al. 2016). Auditors should therefore be aware that client's material uncertainty about the going concern could lead to bankruptcy and not the issuance of a GCO ‘as such’.</p> <p>➤ The following observations suggest that the auditor's GCO is important as it has a substantial impact in a multitude of ways:</p> <p>i. A first-time GCO increases the company's cost of equity capital by an average of 3.3 to 5.2 percent (Amin et al. 2014).</p> <p>ii. Credit rating agencies typically downgrade the company's credit rating after a first time GCO (Feldman and Read 2013; Strickett and Hay 2015)</p> <p>iii. Recent research documents negative share price consequences to equity owners (Czerney et al. 2019), consistent with prior research.</p> <p>iv. Experienced investors associate type II errors with lower audit quality, and type I errors with higher audit quality (Christensen et al. 2016).</p>

Theme	Findings
	<p>v. There is a significant negative association between GCOs and subsequent auditor litigation, suggesting that auditors deter lawsuits by issuing GCOs (Kaplan and Williams 2013).</p> <ul style="list-style-type: none"> ➤ Big 4 auditors appear more likely to issue GCOs than non-Big 4 auditors (Habib 2013). However, follow-up research provides some mixed findings in this regard. ➤ A recent study (Ahn and Jensen 2018) finds that auditors use information about their office's prior GCO 'error rates' to improve audit quality and "calibrate" future GCO decisions. ➤ Lambert and Peytcheva (2017) find evidence that auditors are prone to the fallacy of evidence averaging. In other words, auditors tend to average the diagnosticity of all the available evidence jointly at the end of a task. Accordingly, when strong negative GCO evidence is averaged with milder negative evidence, or with positive evidence, it may lead to more positive overall GCO assessments than if the strong negative evidence was evaluated in isolation. In terms of practical implications, auditors should be cautious as going-concern related evidence is often evaluated at the end of the audit (all other evidence being available already). ➤ There is some evidence that audit firm tenure may adversely influence GCO decisions in the initial years of an engagement (Read and Yezege 2016). Hence, from a practical perspective, auditors should exert particular care and attention for new audit clients. ➤ GCO issuance increases the likelihood of auditor dismissal; such dismissals following a GCO are greater when management is more powerful (i.e., has longer tenure) than the audit committee (Kim 2017). Anticipation of such practices may influence the auditor's objectivity in future reporting decisions and may stimulate "opinion shopping" on the side of the client. From a practical perspective, auditor awareness of such independence threats is important both for GCO decisions and in client acceptance decisions. ➤ Audit committees appointing a former employer audit firm are less likely to receive a GCO. However, larger and higher expertise audit committees mitigate this lower GCO propensity (Dhaliwal et al. 2015). Awareness of social ties and their potential adverse effects is important from a practical perspective.

Attachment 2

Going Concern – Evidence from existing research (extracted from AUASB Research Report 8, October 2022)

Robyn Moroney, Professor, RMIT University

Many research papers have considered issues surrounding auditor's going concern (GC) opinions (see Carson et al. (2013) and Geiger et al. (2019) for syntheses of that literature)². These papers consider various issues including type 1 error rates (GC opinion and company survives), type 2 error rates (company fails but no GC opinion), determinants of GC opinions and consequences GC opinions. Carey et al. (2012) report that 90% of companies receiving a first time GC opinion do not fail dispelling the myth that a GC opinion becomes a self-fulfilling prophecy.

Research has frequently focused on first time reporting of a GC issue by auditors as it is common for companies to receive ongoing GC opinions. When reported for the first time, a GC opinion is news, and it is noticed. Ongoing GC opinions are discounted by the market. When the International Auditing and Assurance Standards Board first considered the inclusion of information relating to consideration of the appropriateness of the GC assumption in the audit report, I conducted an experiment with colleagues at Monash University. We found that this strategy will likely lead to investor confusion about the future viability of a company.

The language surrounding GC is fraught. Financial statements are prepared under the assumption that the company will remain a GC – positive connotation. When an auditor reports on GC, it tends to be a warning to investors that the company may not remain a GC – negative connotation. If an auditor discusses GC in every audit report (the procedures used to assess a company's GC status) or if a company receives a GC audit opinion year on year, investors likely dismiss such disclosures as the company does not fail. In this case the salience of the GC opinion is compromised.

Auditors report on GC issues in different ways. They can qualify their opinion, modify their opinion, or include a Key Audit Matter related to GC. In each case the headings differ and some of the language differs, but the term GC remains. Unless an investor is familiar with auditing standards, it can be difficult for them to gauge the relative severity of each type of opinion.

The advent of Key Audit Matters has brought a challenge for auditors as it is not always clear to them when they should include a GC modification versus a Key Audit Matter. Whilst most modify their opinion using a Material Uncertainty Going Concern paragraph, some still use an Emphasis of Matter paragraph. As part of her PhD, research is being undertaken by Mattocks (2022) to understand how these GC reporting options are affecting investor decision making.

² Note: Geiger research used in the IAASB academic research

Going Concern reporting: summary of current IAASB proposals being deliberated by the IAASB

Basis of Accounting is Appropriate, and:	Description	Applicability
<p>No Material Uncertainty Exists</p>	<p>Under a heading GC: Providing explicit statements about Going Concern in the auditor's report (see paragraphs 21A):</p> <ul style="list-style-type: none"> • A statement providing a conclusion that management's use of the going concern basis of accounting is appropriate. • A statement that no material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern have been identified. 	All entities
<p>No Material Uncertainty Exists</p> <p><i>Events or Conditions Have Been Identified that may Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern</i></p>	<p>Unclear from requirements if include:</p> <ul style="list-style-type: none"> • As for "No Material Uncertainty Exists" above. <p>Under a heading GC: Enhanced informational content in the auditor's report when events or conditions have been identified (see paragraph 21B):</p> <ul style="list-style-type: none"> • Drawing attention to notes in financial statements • Requiring the auditor to describe how the events or conditions were addressed in the audit. 	All entities
<p>Material Uncertainty Exists</p> <p><i>Adequate Disclosure is Made in the Financial Statements</i></p>	<p>Under a heading MURGC: Enhanced informational content for MURGC paragraphs in the auditor's report by providing an explicit statement (see paragraphs 22):</p> <ul style="list-style-type: none"> • Drawing attention to notes in financial statements • That the events/conditions may case a significant doubt and that the opinion is not modified • A statement providing a conclusion that management's use of the going concern basis of accounting is appropriate. <p>• Requiring the auditor to describe how the events or conditions were addressed in the audit.</p>	All entities
		Listed entities