

## NZAuASB Board Meeting Agenda

5 April 2023

9:15 am to 5.00 pm, XRB offices, Wellington

Apologies: David Hay

Est.Time	Item	Topic	Objective		Page	Supplementary	
9.30am	<b>1</b>	<b><u>Board Management</u></b>					
	1.1	Action list	Approve	Paper	3		
	1.2	Chair's report	Note	Verbal			
	1.3	AUASB Update	Note	Verbal			
	1.4	Update from CE	Note	Verbal			
	1.5	Prioritisation plan update	Note	Paper		3	
10.15am	<b>2</b>	<b><u>Environmental scanning</u></b>				<i>Anna</i>	
	2.1	International Update	Note	Paper	4		
	2.2	Domestic Update	Note	Paper	9		
	2.3	February Update for XRB	Note	Paper	11		
	2.4	Summary international sustainability projects	Note	Paper	23		
	2.5	Notes from Audit reference group	Note	Paper	26		
10.45am	<i>Morning tea</i>						
11:00am	<b>3</b>	<b><u>Assurance landscape</u></b>				<i>Karen</i>	
	3.1	Summary paper	Note	Paper	33		
	3.2	Assurance Stakeholder Map			35		
11:30am	<b>4</b>	<b><u>Standard setting policies</u></b>				<i>Misha</i>	
	4.1	Summary paper	Note	Paper	37		
	4.2	Slide pack	Consider	Paper	39		
	4.3	EG Au2	Note	Paper		6	
	4.4	Conformance and harmonisation policy	Note	Paper		18	
12.00pm	<b>5</b>	<b><u>GHG issues</u></b>				<i>Anna</i>	
	5.1	Summary paper	Note	Paper	58		
	5.2	Substantive issues (Late paper)	Consider	Paper	Late		
	5.3	Polling results	Note	Paper		30	
	5.4	Jeska McHugh Submission	Note	Paper		32	
	5.5	ACE Submission	Note	Paper		34	
	5.6	KPMG Submission	Note	Paper		36	
	5.7	Tonkin & Taylor Submission	Note	Paper		38	
	5.8	CEP submission	Note	Paper		41	
	5.9	AFAANZ submission	Note	Paper		47	
	5.10	OAG submission	Note	Paper		56	
	5.11	Submissions received after 9:30am 24 March	Note	Paper		Late	

Est.Time	Item	Topic	Objective		Page	Supplementary
1.00pm	<i>Lunch</i>					
1:45pm	<b>6</b>	<b><u>Audit Evidence</u></b>			<i>Bruce</i>	
	6.1	Summary paper	Note	Paper	61	
	6.2	Draft submission	Approve	Paper	65	
	6.3	IAASB Exposure Draft	Note	Paper		65
	6.4	Submissions received and poll results	Note	Paper		149
2:15pm	<b>7</b>	<b><u>Perceptions on trust and confidence</u></b>			<i>Misha</i>	
	7.1	Summary paper	Consider	Paper	73	
2:30pm	<b>8</b>	<b><u>Going concern</u></b>			<i>Sharon</i>	
	8.1	Summary paper	Note	Paper	76	
	8.2	Compelling reason test	Consider	Paper	82	
	8.3	Proposed ISA 570 (IAASB for approval)	Note	Paper		170
3:00pm	<b>9</b>	<b><u>Engagement team and group audits</u></b>			<i>Lisa</i>	
	9.1	Summary paper	Consider	Paper	88	
	9.2	Amending standard	Approve	Paper	91	
	9.3	Signing memo	Approve	Paper	122	
3.30pm	<i>Afternoon tea</i>					
3.45pm	<b>10</b>	<b><u>IAASB Strategy and work plan submission</u></b>			<i>Sharon</i>	
	10.1	Summary paper	Consider	Paper	126	
	10.2	Submission	Approve	Paper	129	
4.00pm	<b>11</b>	<b><u>ED Tax Planning and Related Services</u></b>			<i>Tracey</i>	
	11.1	Summary paper	Note	Paper	133	
	11.2	IESBA ED	Note	Paper		228
4.15pm	<b>12</b>	<b><u>Implementation and awareness raising</u></b>			<i>Tracey</i>	
	12.1	Cover memo	Note	Paper	135	
	12.2	SAE 3100 PiR Feedback statement	Note	Paper	136	
	12.3	Q&A Group audits revisions	Note	Paper	141	
	12.4	SAE 3450 Feedback statement	Note	Paper	143	

Next meeting: 7 June 2023, In person, Wellington

Domestic Project	2022/2023 planned action	Status	Resource	Priority	Key deliverable	Due date
GHG assurance standard	Engage with GHG panel, Develop ED and guidance, <a href="#">outreach</a> , analyse feedback and issue standard	On track	Available	High	Issue ED	Dec 22
			Available		Issue standard	July 23
Climate reporting	Develop guidance on implications of climate reporting on audit of financial statements	Too early	TBD	TBD	Issue guidance	Defer
Climate/broader assurance	Understand scope of information that may require assurance and who is undertaking that work	Refer agenda	Available	High	NZ landscape document	April 2023
Audit of Service Performance Information	Engage with advisory panel, develop ED, perform outreach, assess responses, issue standard	On track	Available	High	Issue ED	Dec 22
			Available		Issue standard	Aug 23
Assurance over capital raising	Analysis of feedback on ED and issue standard	Gazetted		Medium	Finalise standard	Dec 2022
NZ Definition of a public interest entity	Webinar complete. Analysis of feedback on ED. Issue standard	Gazetted		Medium	Finalise NZ standard	Oct 2022
Research report on KAMs in COVID	Commissioned research to publish a report	<a href="#">Issued</a>		Medium	Publish report	Oct 2022
Guidance on auditor reporting for RBNZ	Consult with practitioners and develop FAQ	FAQ published		Medium	Issue FAQ	Oct 2022
Materiality FAQ	Respond to issue identified by FMA	Monitoring	TBD	Medium	TBD	TBD
Monitor inspection findings	Report highlighting XRB standard response to quality matters	Report issued	Available	Low	Issue report	Feb 2023
QM Conforming amendments PES 1	<a href="#">Finalise standard</a>	Gazetted		Low	Issue standard	August 2022
Post implementation review of SAE 3100	Engage on issues arising on the application of SAE 3100	Refer agenda	Available	Low	Feedback statement	April 23

IAASB projects

IAASB project	2022/23 action	Status	Resource	Priority	Key deliverable	Due date
Sustainability assurance	Monitor developments, consult/respond as appropriate. ED expected September 2023	On track. Update refer agenda	Available	High	Build NZ strategy for climate assurance	Next year
Going Concern	IAASB ED to be approved March 2023	Update refer agenda	Available	Medium	Submission deferred to next year	Q3 2023
Audit Evidence	IAASB ED issued October. Approve submission.	Refer agenda	Available	Medium	Submission	April 23
Fraud	IAASB ED to be approved September 2023	Delayed	Available	Medium	Monitoring	Next year
Strategy and work plan	IAASB approved Dec 2022. Approve submission	Refer agenda	Available	Medium	Submission	April 2023
Audits of Less Complex Entities	IAASB ED on group audits approved in Dec 2022	Revised plan	Available	Low	Agreed no submission	Q2 2023
Implications of PIE on ISAs	Consider NZ implications	Submission finalised	Available	Low	Submission	Oct 2022
	Monitor track 2	On track	Available	Low	ED expected 2024	Next year
Implementation of revised Group standard	Promote awareness of revisions	<a href="#">Need to know webinar</a> Aug 22	Available	Low	<a href="#">Q&amp;A</a>	March 2023
Technology	<a href="#">Insights</a> piece published	None	None	None	None	None
Guidance on application of IAS 1	Update the Example audit reports throughout the suite of ISAs (NZ)	On track	Available	Low	Approve standard	Feb 2023
Participate in NSS meetings/regional groups/advisory groups/task forces	IAASB membership maintained Sustainability advisory panel participation Virtual NSS meeting in June	On track	To manage	High	TBD	Ongoing

IESBA projects

IESBA projects	2022/2023 action	Status	Resource	Priority	Key deliverable	Due date
Sustainability reporting and assurance	Monitor and influence IESBA deliberations	On track	Available	High	Sydney roundtable discussions	TBD
Fees and NAS Rollout	Promote awareness of changes	Need to know webinar CA ANZ audit conference November		Medium	<a href="#">Need to know Webinar</a> (Aug) <a href="#">Fact sheet (cheat sheet)</a> (Aug)	August 2022 Nov 2022
Strategy	IESBA to approve consultation in March 2023	Not yet started	Available	Medium	Submission	Q2 2023
Technology related changes to the Code	IESBA approved standard in Dec 2022. IOB to approve in March	Submission complete Update NZAuASB Feb 23	Available	Low	NZ standard	June 2023
Engagement Team/Group Audits	IESBA approved standard in Dec 2022. Standard issued in late Feb.	Submission complete Refer agenda	Available	Low	NZ standard	April 2023
Technology non-authoritative guidance	Monitor and raise awareness	TBD	None	Low	None	None
Tax planning and related services	IESBA approved exposure draft No action as outside mandate	Refer agenda item	None	None	None	None
Participate in NSS meetings/regional events	Virtual NSS in June Participate in Sydney sustainability roundtables	On track On track	To manage	High	TBD	March 2023



*Te Kāwai Ārahi Pūrongo Mōwaho*

## **EXPLANATORY GUIDE Au2**

### **Overview of the Auditing and Assurance Standard Setting Process**

This Explanatory Guide outlines the due process that is followed by the New Zealand Auditing and Assurance Standards Board (NZAuASB), a sub-Board of the External Reporting Board (XRB), in developing and issuing auditing and assurance standards.

This Explanatory Guide is an explanatory document and has no legal status.

This Explanatory Guide has updated to reflect amendments made to the Financial Reporting Act 2013, to include standards for related services within the mandate of the External Reporting Board.

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## EXPLANATORY GUIDE Au2

## OVERVIEW OF THE AUDITING AND ASSURANCE STANDARD SETTING PROCESS

*Issued by the External Reporting Board*

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**Introduction**

1. The External Reporting Board (XRB) is an independent Crown Entity with continued existence under section 11 of the Financial Reporting Act 2013, and is subject to the provisions of the Crown Entities Act 2004. The XRB is responsible for:
  - (a) developing a financial reporting strategy;
  - (b) developing and issuing accounting standards and authoritative notices<sup>1</sup>;
  - (c) developing and issuing auditing and assurance standards (including professional and ethical standards and standards for related services);
  - (d) liaising with similar international or national organisations.
2. In this Explanatory Guide the organisation is referred to as the XRB and the governance group is referred to as the XRB Board.

**Roles of the XRB and the NZAuASB**

3. The XRB Board has established a sub-board, the New Zealand Auditing and Assurance Standards Board (NZAuASB). The NZAuASB is responsible for developing and issuing auditing and assurance standards. The NZAuASB operates under delegated authority from the XRB Board.
4. Although responsibility for setting auditing and assurance standards has been delegated to the NZAuASB, the XRB Board is responsible for ensuring that appropriate due process occurs in the promulgation of standards. Due process is an essential part of an effective standard setting process, and is also a statutory obligation. The XRB Board considers due process to be important to achieving the XRB's outcome goal of *the establishment of an accounting and assurance standards that engender confidence in*

<sup>1</sup> Under section 12 (c) of the Financial Reporting Act 2013, "authoritative notices" may be issued by the XRB Board for the purposes of the definition of generally accepted accounting practice.



*New Zealand financial reporting, assist entities to compete internationally and enhance entities' accountability to stakeholders.*

5. The XRB Board has established a minimum set of due process requirements to be followed by the NZAuASB in carrying out its responsibilities. Those requirements are outlined in this Explanatory Guide. This Explanatory Guide has been published so that the standard setting process is clear and transparent to constituents and to indicate where constituents may contribute to the process.

## The NZAuASB Standard Setting Process

### The standard setting environment

6. In broad terms the NZAuASB issues two types of standards:
  - (a) standards based on international standards developed and issued by two international standards-setting bodies, the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) of the International Federation of Accountants (IFAC); and
  - (b) domestic standards.
7. The XRB Board supports the adoption of international standards where they are applicable. The majority of current auditing and assurance standards are based on the international equivalent. Accordingly, a significant part of the work of the NZAuASB is to continue to develop New Zealand standards based on international standards, including any amendments thereto.
8. In developing New Zealand standards that are based on international standards, the NZAuASB takes into account the due process followed by the IAASB and the IESBA – these are described in *IFAC's Standards-setting Public Interest Activity Committees' Due Process and Working Procedures – March 2010*.<sup>2</sup>
9. In addition, the XRB Board is strongly committed to harmonising New Zealand and Australian auditing and assurance standards. This harmonisation work also impacts on the process followed in developing and adopting auditing and assurance standards.
10. The NZAuASB uses one of two different processes to develop and issue standards. The specific process applied depends on the type of standard, its source and relevant circumstances. The two processes set out in this Explanatory Guide and the standards that they relate to are summarised in the following table:

Process	Type of standard
Process 1 – Process for standards based on international standards	<ul style="list-style-type: none"> <li>• International Standards on Auditing (New Zealand) (ISAs (NZ))</li> <li>• International Standards on Assurance Engagements (New Zealand) (ISAEs (NZ))</li> <li>• International Standards on Review Engagements (New Zealand) (ISREs (NZ))</li> <li>• International Standards on Related Services (New Zealand)</li> <li>• Professional and Ethical Standards</li> </ul>

<sup>2</sup> Available at [http://web.ifac.org/download/PIAC-Due\\_Process\\_and\\_Working\\_Procedures.pdf](http://web.ifac.org/download/PIAC-Due_Process_and_Working_Procedures.pdf)

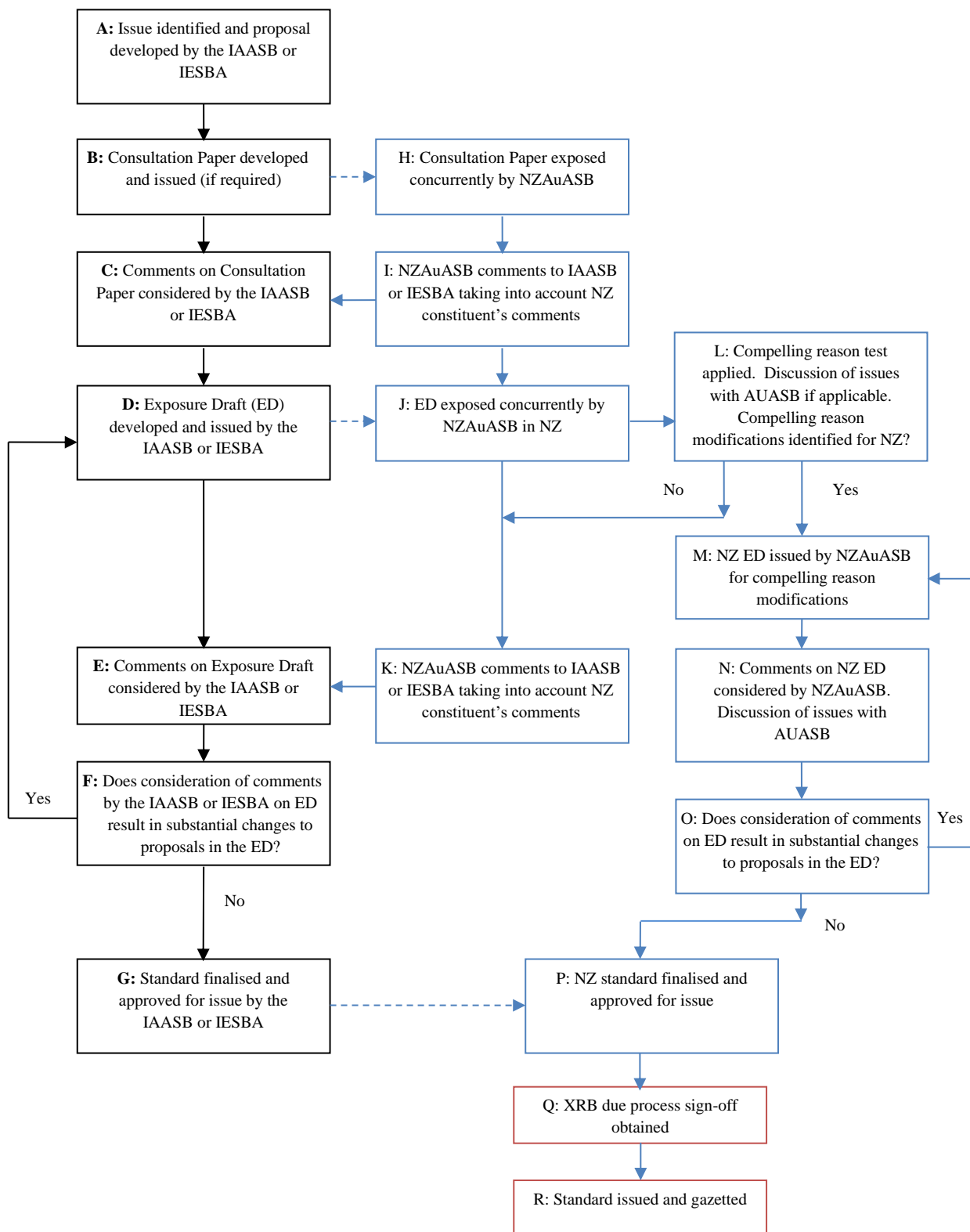
	(PESs)
Process 2 – Process for domestic standards	<ul style="list-style-type: none"> <li>• New Zealand Standard on Auditing (NZ AS)</li> <li>• New Zealand Standard on Review Engagements (NZ SRE)</li> <li>• Standard on Assurance Engagements (SAEs)</li> </ul>

11. The NZAuASB occasionally issues other documents, such as explanatory guides. These are usually issued without formal public consultation because they contain explanatory material, have no legal status and are not mandatory.
12. In addition to the due process followed by the NZAuASB in developing and issuing standards, transparency of the NZAuASB's standard setting role is enhanced by the technical sessions of the NZAuASB meetings being open to the public. Furthermore, NZAuASB agenda papers are available on the XRB's website prior to a meeting, and minutes of meetings are available once they have been approved.

### **Process 1: Process for standards based on international standards**

13. The process the NZAuASB follows for developing auditing and assurance standards based on international standards issued by the IAASB or IESBA is set out in Figure 1. Figure 1 should be read in conjunction with the commentary on Process 1. The steps in the commentary refer to the steps in Figure 1.

**Figure 1: Process for standards based on international standards**



### International Due Process: Steps A-G

14. The XRB Board is committed to adopting international auditing and assurance standards. The New Zealand auditing and assurance standards are based on the international standards and are in most cases substantively identical to the international standards on which they are based. This approach is consistent with the XRB Board's strategy of adopting international standards where it is appropriate to do so. The XRB Board recognises that in doing so it is committing to using the set of International Standards on Auditing as a whole. This means

that the failure to adopt any particular standard would remove the ability of assurance practitioners in New Zealand to assert compliance with those standards.

15. The process the NZAuASB follows in developing auditing and assurance standards based on international standards issued by the IAASB or IESBA is aligned with IFAC's international due process for issuing international auditing and assurance standards. Steps A-G in Figure 1 represent IFAC's international process followed by the IAASB and the IESBA. While this international due process is a critical aspect of the overall standard setting process in New Zealand and is relied on by the NZAuASB, Process 1 focusses on the steps the NZAuASB takes when issuing auditing and assurance standards based on IAASB or IESBA standards.
16. The XRB Board and the NZAuASB consider that commenting on IAASB and IESBA documents as well as contributing to the development of those documents, where appropriate, is important to support the work of the IAASB and the IESBA and to ensure that the standard issued internationally (and subsequently adopted in New Zealand) is appropriate for New Zealand standards. International standards per se are not issued in New Zealand. Accordingly, the NZAuASB's involvement in the process of issuing international standards ceases when the exposure draft submission process is completed.

#### **New Zealand Parallel Due Process: Steps H-K**

17. When the IAASB or IESBA issues a document (such as an exposure draft or consultation paper), the NZAuASB notifies interested parties that the document has been issued and is available to comment on in New Zealand. Where appropriate, the IAASB, IESBA or the NZAuASB arranges forums to enable discussion and exchanges of opinion on the document.
18. Constituents' comments will generally be sought on:
  - (a) the proposals set out in the international exposure draft or discussion document;
  - (b) any regulatory issues or other factors specific to the New Zealand economic and legal environment that could affect implementation of the proposals; and
  - (c) whether there are any compelling reasons for the proposals to be modified for application in New Zealand (refer to steps L-O).
19. The IAASB's international due process comment period varies depending on the complexity of the topic, but is ordinarily 120 days<sup>3</sup>. The IESBA's exposure period is ordinarily not shorter than 90 days. Proposed changes that result in only minor amendment to an issued international standard may be progressed more quickly.
20. Anyone can send comments to the IAASB or the IESBA on their documents. As the national standard setter, the NZAuASB sends comments to the IAASB or IESBA if it considers it appropriate to do so. Constituents can comment directly to the IAASB, IESBA or to the NZAuASB. If comments are made directly to the IAASB or IESBA, the NZAuASB appreciates receiving a copy so it can take these comments into account when developing its own comments to those Boards. Unless a constituent requests otherwise, their comments are included on the XRB's website. However, all comments the NZAuASB receives remain subject to the Official Information Act 1982 and the Privacy Act 1993.

#### **New Zealand Separate Due Process: Steps L-O**

21. If an international standard is adopted without substantive change in New Zealand, the NZAuASB proceeds to issue the New Zealand standard once it has been issued

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<sup>3</sup> The concurrent comment period in New Zealand is usually marginally shorter to enable the NZAuASB to receive comments from New Zealand constituents before making its own submission to the IAASB or the IESBA.

internationally.

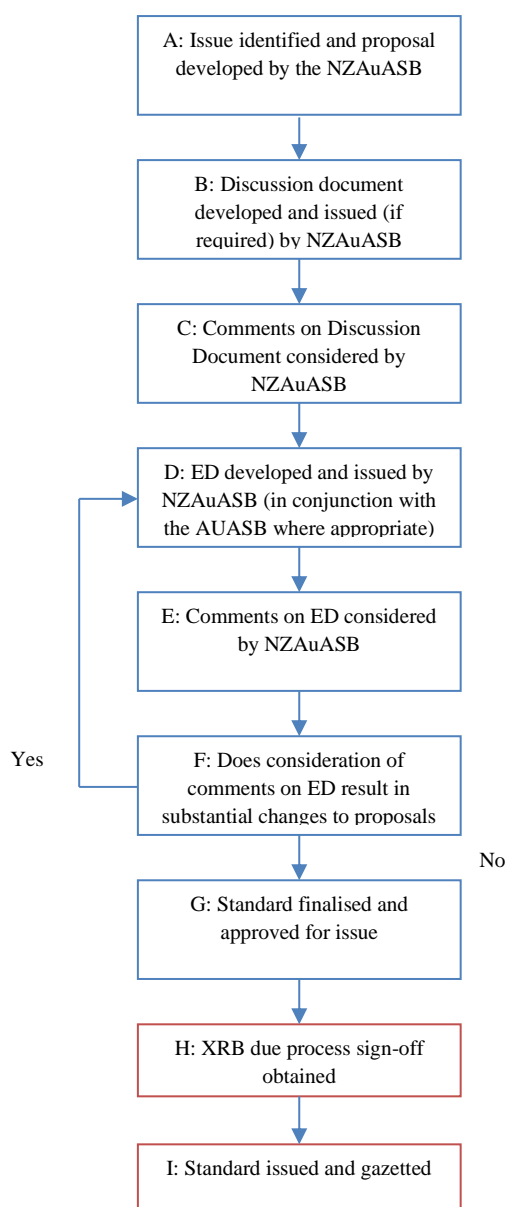
22. The XRB Board recognises that the NZAuASB may consider modifying international standards for application in New Zealand where there are compelling reasons to do so. The XRB Board considers such modifications acceptable provided that they consider the public interest, and do not conflict with or result in lesser requirements than the international standards.
23. If the NZAuASB considers that modifications to an international auditing or assurance standard is required in developing it as a New Zealand standard (that is where compelling reasons modifications are identified for New Zealand), there will be a separate due process for that New Zealand modification. Ideally, the separate due process will be around the same time as the international due process, with the proposed New Zealand modifications clearly highlighted. New Zealand standards based on international standards that contain modifications from international standards will clearly identify the modification.
24. The XRB Board is also committed to harmonising New Zealand and Australian auditing and assurance standards. Australia has also adopted standards based on international standards. The AUASB has a parallel policy of convergence with international standards issued by the IAASB. The NZAuASB works with the Australian Auditing and Assurance Standards Board (AUASB) towards harmonised standards based on international standards. Therefore, in most cases harmonisation will follow as the result of the respective policies of converging with international standards.

### **Finalisation: Steps P-R**

25. Once the international standard has been issued, or the New Zealand modifications are finalised for approval, the NZAuASB finalises the New Zealand standard and approves it for issue in accordance with the XRB's approval process and with the legislative process set out in the Financial Reporting Act 2013 (see section on **XRB's approvals and legislative process**). Where appropriate, the NZAuASB may issue an "Explanation for Decisions Made" setting out the main matters raised by constituents, and the decisions made by the NZAuASB when finalising the standard.

### **Process 2: Process for Domestic Standards**

26. The process the NZAuASB follows for developing domestic standards is set out in Figure 2. Figure 2 should be read in conjunction with the commentary on Process 2. The steps in the commentary refer to the steps in Figure 2.

**Figure 2: Process for Domestic Standards****Steps A-F**

27. Domestic standards may be developed to address matters specific to New Zealand, or which are important to New Zealand, but which are not addressed by international auditing and assurance standards.
28. The development of a New Zealand standard is harmonised with any equivalent Australian standard, where applicable. Differences may arise where different regulatory requirements apply or different practices are considered appropriate.
29. In developing domestic standards, constituents' views are sought on the need for, and content of, any requirements. For some projects, the NZAuASB may issue a discussion document identifying matters that the NZAuASB is considering and options for those matters.
30. For all proposed standards, the NZAuASB prepares an exposure draft and accompanying explanatory material that highlights the reason for its development.
31. Interested parties are notified of the issue of all discussion documents and exposure drafts.

Where appropriate, forums are arranged or other arrangements made to enable further discussion and exchanges of opinion.

32. The comment period can vary depending on the complexity of the topic, but is typically 90 days. Shorter comment periods are used only for urgent or minor matters and will never be less than 30 days.
33. Constituents' comments will generally be sought on the proposed requirements and the need for any further additional requirements. Constituents' comments are taken into account when finalising the domestic standard. Unless a constituent requests otherwise, their comments are included on the XRB's website. However, comments the NZAuASB receives are subject to the Official Information Act 1982 and the Privacy Act 1993.

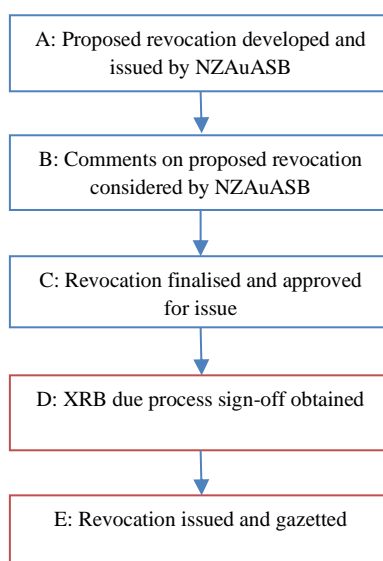
### Steps G-I

34. Following the comment period, and the consideration of the comments by the NZAuASB, the NZAuASB finalises the standard and approves it for issue in accordance with the XRB's approval process and with the legislative process set out in the Financial Reporting Act 2013 (see section on **XRB's approvals and legislative process**). Where appropriate, the NZAuASB may issue an "Explanation for Decisions Made" setting out the main matters raised by constituents, and the decisions made by the NZAuASB when finalising the standard.

### Process for revocations of standards

35. The process the NZAuASB follows for revoking standards is set out in Figure 3.

*Figure 3: Process for revocations of standards and authoritative notices*



### Steps A-B

36. The Financial Reporting Act 2013 requires that the due process applying to the issue of standards also applies to their revocation<sup>4</sup>. Before the NZAuASB revokes a standard, it must ensure that people or organisations likely to be affected have been adequately consulted.
37. The NZAuASB develops and issues the proposed revocation, including the reason for the

<sup>4</sup> It should be noted that a standard may be superseded when it is replaced with another standard. A separate consultation process is not undertaken for the superseded standard as its proposed supersedence is included in the consultation process for the proposed replacement standard.

revocation. Interested parties are notified of the issue of the proposed revocation. The comment period for the proposed revocation is typically 90 days.

38. Constituents' comments are generally sought on the proposed revocation, and those comments are taken into account when finalising the revocation. Unless a constituent requests otherwise, their comments are included on the XRB's website. However, all comments the NZAuASB receives are subject to the Official Information Act 1982 and the Privacy Act 1993.

### Steps C-E

39. Following the comment period, and the NZAuASB considering the comments, the NZAuASB finalises the revocation and approves it for issue in accordance with the XRB's approval process and with the legislative process set out in the Financial Reporting Act 2013 (see section on **XRB's approvals and legislative process**). Where appropriate, the NZAuASB may issue an "Explanation for Decisions Made" document setting out the main matters raised by constituents, and the decisions made by the NZAuASB when finalising the revocation.

### XRB approvals and legislative process

40. Before approving a standard, amendment or revocation for issue the NZAuASB needs to satisfy itself that reasonable steps have been taken to consult with people or organisations likely to be affected by their content.
41. The NZAuASB is required<sup>5</sup> to obtain a certificate signed by a member of the XRB Board (usually the Chair of the XRB), authorising the issue of the standard, amendment or revocation.
42. Before signing a certificate, the member of the XRB Board checks that the standard, amendment or revocation is consistent with the XRB's financial reporting strategy, that due process has been followed, and that matters raised by constituents have been adequately considered. In the case of a standard that is based on an international standard, this includes ensuring that the applicable international due process has been followed. This reflects the XRB Board's interest in ensuring due process is followed.
43. Following the signing of the certificate the NZAuASB formally issues the standard, amendment or revocation by public notification in the Gazette<sup>6</sup>, and sends a communiqué to interested parties.
44. In accordance with the provisions of the Financial Reporting Act 2013, all standards, amendments and revocations issued are subject to the Legislation Act 2012. This means that these standards are treated as disallowable instruments and must be presented to Parliament within 16 sitting days of the standard being gazetted<sup>7</sup>. Sections 42 and 43 of the Legislation Act 2012 set out the manner in which a disallowable instrument (or provisions of a disallowable instrument) may be disallowed.
45. A standard, amendment or revocation takes effect on the 28<sup>th</sup> day after the date of its public notification in the Gazette. However, any of those documents may be treated as taking effect on its notification in the Gazette if the NZAuASB considers it necessary or desirable to do so<sup>8</sup>.
46. The requirements of existing standards that are affected by a new standard, amendment

<sup>5</sup> As required by section 26 of the Financial Reporting Act 2013.

<sup>6</sup> As required by section 24 of the Financial Reporting Act 2013.

<sup>7</sup> See section 25 of the Financial Reporting Act 2013.

<sup>8</sup> See section 27(2) of the Financial Reporting Act 2013.



or revocation remain in force until the mandatory application date of the new standard. Subject to the requirements of the standard, a new or revised or amended standard may be applied in advance of its mandatory application date.



*Te Kāwai Ārahi Pūrongo Mōwaho*  
**EXTERNAL REPORTING BOARD**

**October 2021**

# **NZAuASB Policy and Process for International Conformance and Harmonisation of Standards**

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# NZAuASB Policy and Process for International Conformance and Harmonisation of Standards

## PART A - INTRODUCTION

### Application Date

1. The policies detailed in this paper apply from 21 October 2021.
2. The Financial Reporting Act 2013 requires the External Reporting Board (XRB) to prepare and issue auditing and assurance standards, including the professional and ethical standards that govern the professional conduct of auditors, and standard for related services<sup>1</sup>. The NZAuASB has delegated authority from the XRB Board to develop or adopt and issue these auditing and assurance standards in the public interest<sup>2</sup> in New Zealand. All of these standards have legal status under the Financial Reporting Act 2013.

### Objectives

3. The key strategic objectives set by the XRB Board for the NZAuASB include:
  - to adopt international auditing and assurance standards, including the professional and ethical standards for assurance practitioners, and standards for related services<sup>1</sup>, in New Zealand unless modifications are considered to be in the public interest and these do not conflict with, or result in lesser requirements to, the international standards (which the Board describes as “compelling reasons”); and
  - to work with the Australian Auditing and Assurance Board (AUASB) towards the establishment of harmonised standards based on international standards.
4. A key aspect of the NZAuASB’s strategic objectives is the convergence of international and local standards. Implicit in this approach is the need for the NZAuASB to mostly be a “standards-taker”, i.e., to use the international standards as a base for New Zealand standards. For those standards to be appropriate in New Zealand, the NZAuASB seeks to influence international standards<sup>3</sup> during the various stages of standards development to ensure high quality global standards that are both applicable in New Zealand and considered to be in the public interest.

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<sup>1</sup> Agreed upon procedures or other non-assurance work that may ordinarily be carried out by an audit or assurance practitioner.

<sup>2</sup> The New Zealand standard’s responsiveness to the public interest in New Zealand to be assessed with reference to the qualitative characteristics in the Public Interest Framework set out in Appendix 1.

<sup>3</sup> Refer to the [Overview of the Auditing and Assurance Standard Setting Process](#).

### **Purpose of this paper**

5. The purpose of this paper is to set out the principles of convergence to international standards and harmonisation with Australian standards. The Board will use this as the framework for the standard setting process of the NZAuASB.
6. It is expected that this paper will be revised from time to time to take account of changes to the XRB's reporting and assurance environment.

### **PART B – MODIFICATIONS FROM INTERNATIONAL STANDARDS (“THE COMPELLING REASON TEST”)**

#### **Principles of Convergence to International Standards**

7. The XRB Board recognises that the NZAuASB may consider modifying international standards for application in New Zealand under either of the objectives of this policy. The XRB Board considers such modifications acceptable provided they consider the public interest, and do not conflict with or result in lesser requirements than the international standards.

#### ***Context***

8. For the purposes of this policy:
  - (a) Factors the NZAuASB should consider when assessing whether modifications to the international standards are considered to be in the public interest are described in Appendix 1.
  - (b) The test to determine whether modifications do not conflict with or result in lesser requirements than the international standards is described in paragraphs 12 to 14 below.
  - (c) The international standards should be adopted and only be modified if there are compelling reasons to do so. This ‘Compelling Reasons Test’ is described in paragraphs 12 to 14 below.
9. The [IAASB Policy Position, \*Modifications to International Standards of the IAASB-A Guide for National Standard Setters that Adopt IAASB’s International Standards but Find it necessary to Make Limited Modifications \(July 2006\)\*](#) sets out the policy that National Standard Setters must comply with to assert compliance with the international standards when making modifications.
10. The principles of convergence set out in this paper adhere to the principles set out in the IAASB’s Policy Position. This enables the NZAuASB to assert compliance with the international standards when making modifications.

## ***Policy***

11. Any modifications the NZAuASB make to an international standard must comply with the IAASB's Policy Position (as described in Paragraph 9) and the strategic objectives of the XRB Board (referred to previously in Paragraph 3). Accordingly:
- (a) Additions to an international standard are limited to addressing:
    - (i) National legal and regulatory requirements.
    - (ii) Other requirements or guidance that are not lesser or in conflict with the current requirements or guidance in the international standard.

NB: Any additions made under paragraph 11(a)(ii) are to be communicated to the IAASB/IESBA for future consideration.

- (b) Deletions from, or other modifications to, an international standard are limited to:
  - (i) The elimination of options or alternatives provided for in the international standard.
  - (ii) Requirements or application guidance which law or regulation does not permit, or which needs to be modified to be consistent with law or regulation.
  - (iii) Requirements or application guidance where the international standard recognises that different practices may apply in different jurisdictions and this is the case for New Zealand.

NB: Before deleting a requirement under paragraph 11(b)(ii) or (iii), the NZAuASB will consider whether the objective of the deleted requirement could be met by replacing it with an appropriate alternative.

## **Modifications of International Standards (“The Compelling Reason Test”)**

12. In the case of an international standard that is being reviewed for the purpose of adoption in New Zealand, the compelling reason test for modifications is triggered when the international standard does not reflect, or is not consistent with:
- (a) New Zealand legal and regulatory arrangements; or
  - (b) principles and practices that are appropriate having regard to the public interest<sup>4</sup> in New Zealand (including in the use of different terminology).
13. Where paragraph 12(a) applies, any new or modified requirement will:
- (a) ensure effective and efficient compliance with the legal and/or regulatory framework in New Zealand; and
  - (b) not result in a requirement that is lesser than or in conflict with the international standard.

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<sup>4</sup> The New Zealand standard's responsiveness to the public interest in New Zealand to be assessed with reference to the qualitative characteristics in the Public Interest Framework set out in Appendix 1.

14. Where paragraph 12(b) applies, any modification to the standard must:
  - (a) ensure compliance with principles and practices that the NZAuASB considers appropriate and in the public interest<sup>5</sup> in New Zealand; and
  - (b) be clear and promote consistent application by all practitioners in New Zealand; and
  - (c) promote significant improvement in audit/assurance quality (as described by the IAASB's Framework for Audit Quality) in the New Zealand environment; and
  - (d) not result in a standard that conflicts with, or results in lesser requirements than the international standard; and
  - (e) not be overly complex and confusing; and
  - (f) not change the meaning or intent of the international standard by imposing more onerous requirements on practitioners in New Zealand than are necessary.
15. Before making any modification under paragraph 13 or paragraph 14, the NZAuASB will consider whether, and be satisfied that, the benefits of modifying the standard outweigh the costs (with cost primarily being the compliance cost associated from differences to the international standards).
16. Any deletion from the international standards will be clearly noted, and any addition will be clearly marked as a New Zealand paragraph. However, minor wording and spelling changes (as opposed to changes reflecting the use of significant terminology) need not be reflected in the New Zealand standard as a modification to the international standard where the intent remains unchanged.

## **PART C – HARMONISATION OF AUSTRALIAN AND NEW ZEALAND STANDARDS**

### **Principles of Harmonisation**

17. The joint objective of the NZAuASB and AUASB is to achieve a harmonised set of assurance standards between New Zealand and Australia, based on international standards. This co-operation contributes to the outcome framework of the Single Economic Market which was established by the New Zealand and Australian Prime Ministers in 2009. The aim of the framework is to enable businesses, consumers, and investors to conduct operations across the Tasman in a seamless regulatory environment.

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<sup>5</sup> The standard's responsiveness to the public interest to be assessed with reference to the qualitative characteristics in the Public Interest Framework

18. The approach to harmonisation set out in this paper acknowledges the principles that:
- (a) Regulatory harmonisation requires a flexible approach that takes account of both the benefits and costs of a particular solution.
  - (b) Achieving harmonisation in relation to the Australian and New Zealand assurance standards benefits from a collaborative approach to the adoption of the standards (whether based on an international or NZAuASB developed standard) in the respective jurisdictions, based on a common set of principles (in particular, the compelling reason test).
  - (c) In seeking harmonisation, the standards should be consistent or compatible to the extent that they do not result in barriers for users of the standards in the Trans-Tasman environment.
  - (d) A recognition that each of the Boards act autonomously and independently and there may be instances where standards may differ because of country specific requirements and public interest considerations in each jurisdiction.
19. Compelling reasons for differences between New Zealand and Australian standards are where:
- (a) different legal and regulatory requirements apply; and/or
  - (b) different principles and practices are appropriate having regard to the public interest<sup>6</sup> in New Zealand (including in the use of different terminology).

### **Process for harmonisation with Australian standards**

20. The NZAuASB will take the principles of harmonisation into account when it applies the compelling reason test (in paragraphs 12-14) in any case where either the NZAuASB or the AUASB has modified, or intends to modify, an international standard.
21. Where there is an existing equivalent Australian standard or a new or revised Australian standard, the development of a New Zealand standard can meet the principles of harmonisation with the equivalent Australian standard by:
- (a) using the equivalent Australian standard as a starting point; and
  - (b) liaising with the AUASB on any intended differences between the proposed New Zealand standard and the equivalent Australian standard; and
  - (c) applying the same approach to harmonisation as for the modification of an international standard.

When the AUASB decides to revise an existing equivalent Australian standard there is no obligation for the NZAuASB to also revise that standard.

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<sup>6</sup> The New Zealand standard's responsiveness to the public interest in New Zealand to be assessed with reference to the qualitative characteristics in the Public Interest Framework set out in Appendix 1.



22. The principles of convergence to the IAASB and IESBA standards is set out in a flowchart in Appendix 2 to this document.

## **PART D - AUASB AND NZAuASB COMMUNICATION PROTOCOLS IN STANDARD SETTING**

23. The following protocols between the AUASB and the NZAuASB apply to ensure a joint consideration of compelling reason modifications and harmonisation during the two boards' standard setting processes.

### **Overall principles**

24. The overall principles are that there should be sufficient appropriate communication, dialogue and sharing of information and the position or decisions of each Board, throughout each stage of the process to develop auditing and assurance standards, in order to:
- reduce the risk of unintended differences in the final auditing and assurance standards approved by each Board; and
  - enhance the individual and collective understanding of each Board and the effective application of the compelling reason test in each jurisdiction; and
  - enhance the quality and robustness of each Board's debate and consideration of issues relevant to the development and promulgation of auditing and assurance standards through the sharing of views and discussions of each Board on a particular matter; and
  - facilitate, or enhance, the accountability that each Board has back to their respective Governments for the contribution to, or delivery on, the Trans-Tasman outcomes framework, in particular, enhancing the ability for auditors in one jurisdiction to operate in the other jurisdiction through the effective harmonisation of auditing and assurance standards.

### **Sharing of information**

25. Communication on the known possible compelling reason modifications in either of the two jurisdictions occurs during the due process of each Board. To mitigate or reduce the risk of unintended differences in the two jurisdictions, the points in the standard setting process for sharing of information are:
- (a) When the IAASB ED is released for exposure internationally (for any issues identified at this stage).
  - (b) At the close of the comment period for the international ED, and before finalising the submissions by each Board to the IAASB.
  - (c) As soon as the IAASB standard is finalised.
26. As a matter of course staff inform their respective Board of any possible emerging differences/issues throughout the process by liaising with staff from the other Board.

### **Content of the communication**

27. Each Board communicates to the other Board any public interest issues identified with a proposed international standard, and the proposed compelling reason modifications.
28. The content of the communication will depend on the stage reached in the due process of each Board. The communication is to include as much of the following matters that are known at each communication point:
  - (a) The reason why it is a public interest issue in the particular jurisdiction; and
  - (b) The proposed modification to the international standard; and
  - (c) The rationale as to why the Board considers it to be a compelling reason modification, with reference to the AUASB and NZAuASB's agreed principles on convergence and harmonisation; and
  - (d) A request to the other Board for its view on whether:
    - it is also a public interest issue in its jurisdiction; and
    - the proposed modification meets the compelling reason test in its jurisdiction.

### **Form/manner of the communication**

29. The form of the communication could be one of the following, or a combination thereof:
  - (a) Verbal feedback from the respective Chair of the other Board;
  - (b) Staff papers prepared based on feedback from staff from the other Board;
  - (c) Board meeting papers of the other Board.

### **Resolving differences**

30. Where the two Boards have different views about public interest matters identified and/or the compelling reasons for modifications, the Boards jointly consider, debate and, where possible, resolve any differences as early as practically possible in the standards development process. The appropriate process for this joint consideration is agreed by the two Boards on a case by case basis, and could be one of the following (under direction by each Board):
  - A joint Board meeting.
  - Establishment of a joint AUASB/NZAuASB subcommittee by the Chairs to address any differences.
  - Consideration of joint staff papers at each of the subsequent Board meetings.
  - Consideration by Chairs and Technical Staff only.
  - Consideration by Chairs only.

31. Where the two Boards reach different conclusions after the joint consideration of their different views on compelling reason modifications, the rationale for the different conclusions are clearly documented and communicated to the audit market in both jurisdictions.

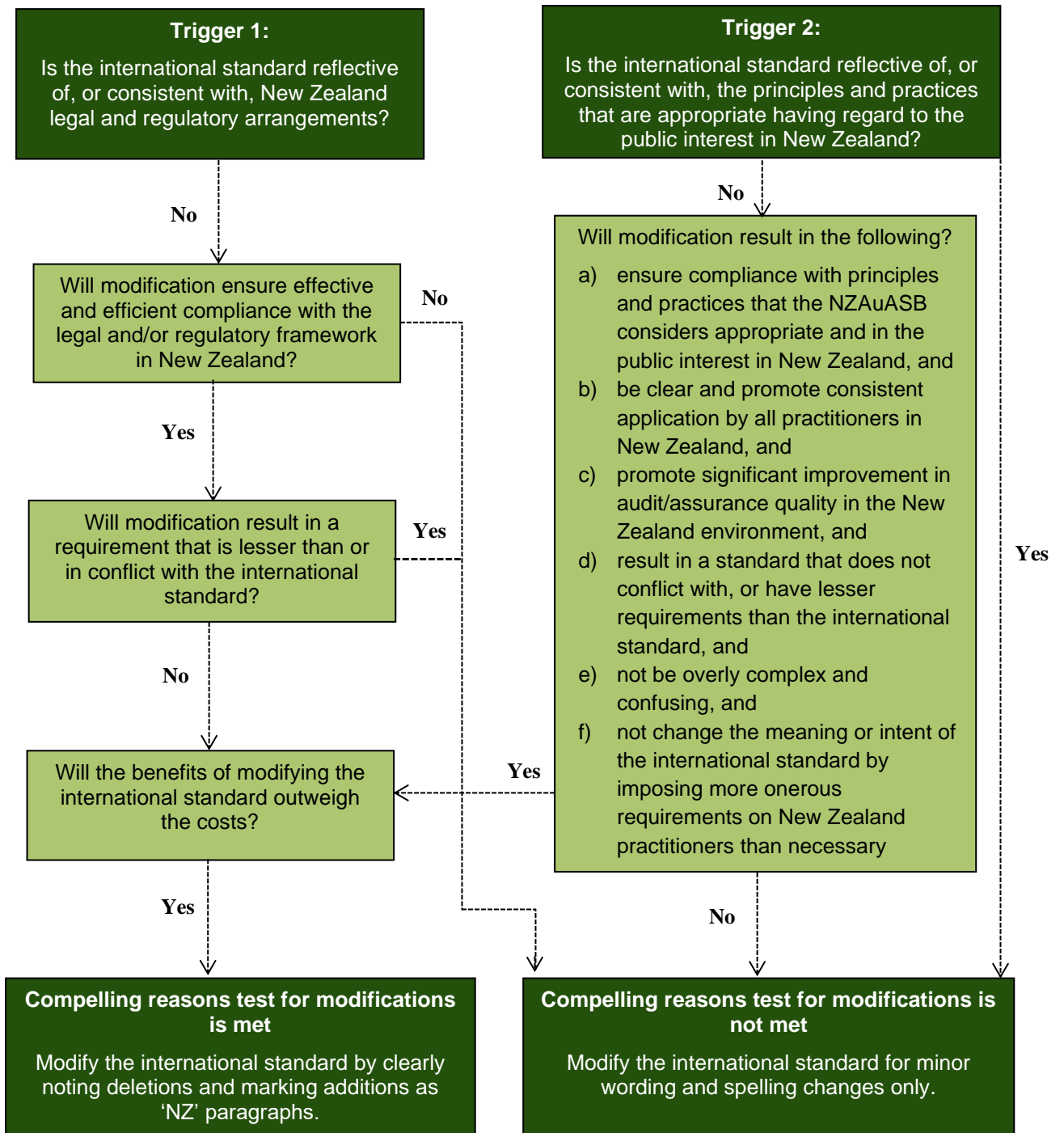
## APPENDIX 1 - Consideration of Public Interest

1. The Monitoring Group<sup>7</sup> issued its report *Strengthening the International Audit and Ethics Standards Setting System* in July 2020 to address the need for more independent audit standard setting, with a key focus on the public interest. The “Public Interest” has not been defined but a Public Interest Framework (PIF) has been developed under which international audit related standard setting activities will be undertaken.
2. The characteristics in the PIF provide a useful frame of reference for the NZAuASB to assess whether modifications to the international standards for application in New Zealand appropriately consider the public interest (in the context of New Zealand).
3. The PIF sets out the following qualitative characteristics to be used to assess the international standards responsiveness to the public interest, including but not limited to:
  - (a) Consistency with priorities established in the strategic planning process
  - (b) Coherence with the overall body of standards, to avoid conflict
  - (c) Appropriate scope to address key issues, and to specify to whom the standard applies
  - (d) Scalability, including proportionality
  - (e) Timeliness, without sacrificing quality
  - (f) Relevance in recognising and responding to emerging issues, changes in business environment, developments in accounting practices or technology
  - (g) Completeness, reflecting results of broad consultation and balancing stakeholder priorities
  - (h) Comprehensiveness, by limiting exceptions to the principles
  - (i) Clarity and conciseness
  - (j) Implementability and ability to be consistently applied
  - (k) Enforceable, through clearly stated responsibilities
4. The public interest responsiveness is assessed by applying the qualitative characteristics in the following steps:
  - (a) Identify the perspectives and needs of groups with legitimate interests
  - (b) Define the desired goal that would allow the standard to best serve user needs.
  - (c) Identify criteria to assess responsiveness to the goal
  - (d) According to the criteria, reasonably weigh input from different groups
  - (e) Assess the expected contribution of the standard to meeting its goal and consider whether it is responsive to the public interest.

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<sup>7</sup> The members of the Monitoring Group are the Basel Committee on Banking Supervision, European Commission, Financial Stability Board, International Association of Insurance Supervisors, International Forum of Independent Audit Regulators, International Organization of Securities Commissions, and the World Bank Group.

**APPENDIX 2 - Flowchart to depict the ‘compelling reasons test’ in the Principles of Convergence with the IAASB and IESBA standards**



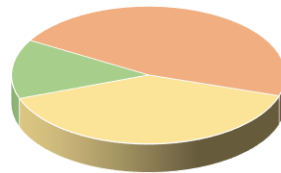
## Polling results

Polling results from the interactive feedback forum on 8 February 2023.

Slides from the presentation: [click here](#).

1. Are there other assurance standards that you consider we should be referencing?

Yes, there are other standards currently used that should be allowed.  
14%

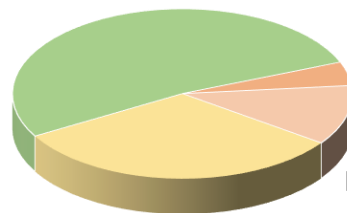


No.  
47%

Difficult to say. I will need to think about this more.  
40%

2. Do you consider the range of reporting tools will enhance the communicative value of the assurance report?

Yes.  
52%



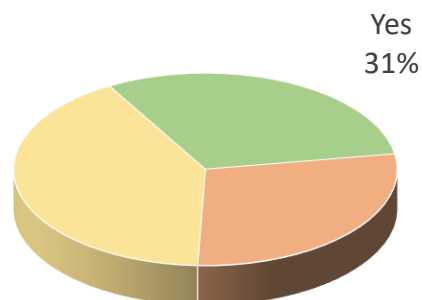
No.  
5%

I have reservations about some of them.  
11%

Difficult to say. I will need to think about this more.  
32%

3. Do you have any concerns regarding the different terminology in the assurance conclusion?

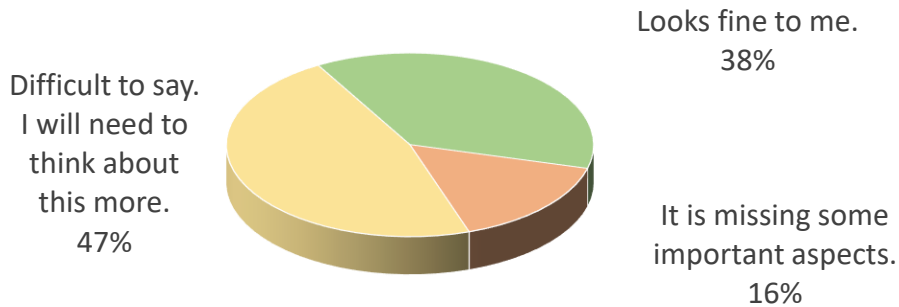
Difficult to say. I will need to think about this more.  
41%



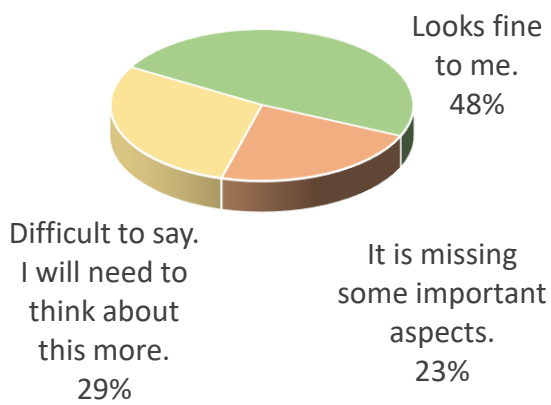
Yes  
31%

No  
28%

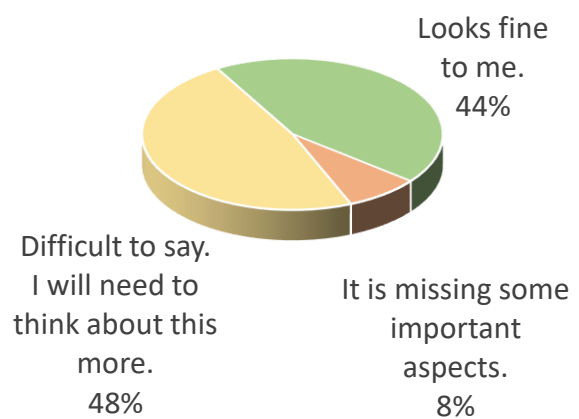
4. Are the competence and reliance on work of other requirements appropriate?



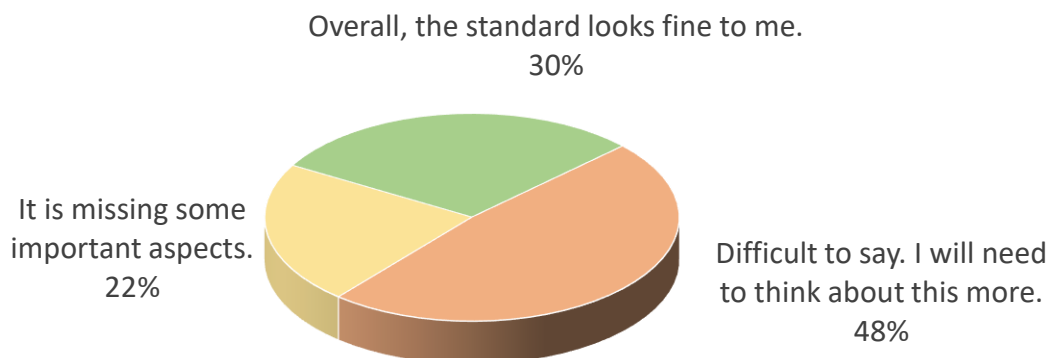
5. Views on the ethics and independence section of the standard?



6. Thoughts on the quality management section of the standard?



7. Is there anything else important that is missing in the proposed standard?



**From:** Jeska McHugh <[jeska@mchugh-shaw.co.nz](mailto:jeska@mchugh-shaw.co.nz)>  
**Sent:** Wednesday, 8 March 2023 6:55 am  
**To:** XRB Assurance Standards <[Assurance@xrb.govt.nz](mailto:Assurance@xrb.govt.nz)>  
**Subject:** Assurance Engagements over GHG Emissions Disclosures Consultation

Tēnā koe,

I would like to provide feedback.

Question 11. Do you have any other comments on the proposed standard? If so, please specify.

I have one recommendation which would enhance the assurance report. The recommendation is to include a section that documents the assurance history. This information would be obtained from the previous assurance report (i.e. added to each year). An example, of the FY28 report, is below:

Year Ended	Assurance Organisation	Level of Assurance
30 June 2025	ABC Limited	Limited (S1, S2, S3)
30 June 2026	XYZ Limited	Reasonable (S1, S2) Limited (S3)
30 June 2027	CBA Limited	Reasonable (S1, S2, S3)
30 June 2028	ABC Limited	Limited (S1, S2, S3)

I realise the assurance report is for a specific period and this history is not documented in financial assurance reports. However, the assurance history does provide useful context given that CRD reporters are likely to use this report as the basis of other claims. The most common claim will be a comparative analysis of an emissions reduction/increase from a baseline year.

The assurance history could be located in an Appendix at the end of the report.

Ngā mihi nui,  
Jeska.

Jeska McHugh

**Assurance Lead**  
**McHugh & Shaw Limited**





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20 March 2023

External Reporting Board

By email only: [assurance@xrb.govt.nz](mailto:assurance@xrb.govt.nz)

Kia ora

Thank you for the opportunity to make a submission on the XRB exposure draft on GHG assurance.

### **About ACE New Zealand**

The Association of Consulting and Engineering New Zealand (ACE New Zealand) is a firm-based membership organisation representing over 250 professional services firms working across the built and natural environment – from large global firms to employee-owned SMEs. Our members have a wide range of specialist expertise that will be required to support new reporting and assurance on climate-related and wider sustainability issues. They employ approximately 14,000 staff, including engineers, project managers, planners, scientists, architects, surveyors and other technical disciplines. Our teams work together to advise, design and deliver on critical technology, policies and practices, and construction and infrastructure across the built and natural environment in Aotearoa.

### **General comments on XRB proposal**

Overall, we agree with the approach set out in the exposure draft. In particular:

- We note that there are currently two standards to provide assurance over GHG disclosures in use in New Zealand. We agree with the decision to allow practitioners to continue to use either of those standards and agree that these assurance standards are fit for purpose for undertaking assurance over GHG disclosures.
- We also support a principle-based approach to ethics and quality management requirements as this recognises that other professional and accreditation bodies have formal ethical and quality frameworks in place. We do not consider there are any other measures that should be included in the standard.
- We have no other comments on the proposed standard.

### **Conclusion**

We trust these comments are helpful to XRB in finalising the proposed standard.

We would be happy to discuss any aspect of this submission and are available and willing to contribute to further work by XRB.

Ngā mihi

A handwritten signature in black ink, appearing to read 'Helen Davidson', written in a cursive style.

Helen Davidson

Chief Executive



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External Reporting Board  
PO Box 11250  
Manners Street Central  
Wellington 6142

17 March 2023

To Whom it may concern

## **Consultation on Assurance Engagements over GHG Emissions Disclosures**

KPMG welcomes the opportunity to provide comments on the External Reporting Board ('XRB') Assurance Engagements over GHG Emissions Disclosures (the 'Exposure Draft') Consultation Document, December 2022 (the 'Consultation').

Overall, we support the development of an assurance standard to ensure competency and knowledge of assurance practitioners, and comparability of the work that is being performed over climate standards. It will be critical that New Zealand assurance providers, and the level of work undertaken, has credibility internationally and is consistent with international developments as many Financial Markets Conduct Act, as amended by the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 (the FMC Act as amended) entities and Climate Reporting Entities (CREs) will be making their reports available to an international audience.

A distinguishing mark of the audit and assurance profession that currently undertakes statutory financial audits in New Zealand is the responsibility to issue high quality conclusions and opinions. This outcome is reached when assurance engagements are executed consistently, in line with the requirements and intent of applicable professional standards, within a strong system of quality controls.

Whilst we support the development of a specific assurance standard relating to climate reporting, we have concerns regarding the deactivation of the Professional and Ethical Standards as we believe these standards underpin the credibility and quality of assurance reports released to the New Zealand market. We note that given that the System of Quality Management surrounding our assurance practice has been designed to meet the requirements of PES 1, 3 and 4 we will still be required to comply with these standards in the assurance engagements we complete for our clients.

We understand the position taken by the XRB, as requiring application of these standards is likely to restrict market access to those who have already made the significant investment in quality management systems and processes necessary to support them. We do recognise that the Greenhouse Gas Inventory assurance market will benefit from having practitioners participating that come from a more diverse range of backgrounds than just financial auditing and that some of those practitioners will need to make a significant investment in quality management systems to meet the standards firms complying with PES 1, 3 and 4 are expected to achieve.

Based upon the above, we support the proposed position in the standard, contingent on the inclusion of transition clauses which clearly define the expectation that all assurance practitioners will need to apply all the Professional and Ethical Standards at a defined point in the future, which should be no later than the proposed end of life of the transitional assurance standard. Based upon the likely date selected for the commencement of comprehensive assurance of the whole climate statement (per the recent MBIE/MFE consultation), we suggest the proposed expiry date of the transition standard to be 31 December 2028. We also believe it should be mandatory for the assurance practitioner to disclose in their assurance report whether the Professional and Ethical Standards have been applied, or they have only complied with the requirements set out in the Exposure Draft.

We note the guidance that is provided on the professional skills and experience required to complete climate assurance engagements. We agree that it is necessary to have experience in both the delivery of assurance engagements under internationally recognised auditing standards and the quantification of Greenhouse Gas Inventories to complete an engagement. We also recognise that it is possible to bring technical capability to an engagement using one or more specialists. It is the practitioner's role to ensure that appropriate knowledge is engaged in reaching the opinion that is provided. The guidance to the proposed standard is more prescriptive in terms of the technical knowledge that a practitioner should have of quantification of Greenhouse Gas Inventories than of assurance process and methodology. We believe both skills and capabilities are equally important and should be treated in a consistent manner in the standard. Ultimately a practitioner will be subject to a licensing regime where they will need to demonstrate to the regulator how they bring all the necessary skills to the assurance engagements that they undertake.

Finally, we want to highlight our strong support of the proposed inclusion of Key Matter, Emphasis of Matter, Inherent Uncertainty and Other Matter paragraphs where appropriate in the assurance report, as we believe that the use of these paragraphs will provide greater clarity to the intended users on what is highly judgemental subject matter.

We have no further comments on the Exposure Draft or Consultation.

Yours sincerely



Darby Healey  
Partner

Yours sincerely



Ian Proudfoot  
Partner

External Reporting Board  
assurance@xrb.govt.nz

To whom it concerns

**Assurance Engagements over GHG Emissions Disclosures  
Submission on Exposure Draft, December 2022**

We are pleased to provide feedback in response to the exposure draft for Assurance Engagements over GHG Emissions Disclosures, released by the External Reporting Board (XRB) in December 2022.

**We strongly support the approach XRB has taken to development of the exposure draft, in particular, XRB's decision to build on existing international standards currently used in New Zealand. We believe this recognises the competencies of assurance practitioners who are currently verifying GHG emissions statements in New Zealand, and provides organisations with greater ability to choose an assurance practitioner with the skills and competencies that suit the nature and technical complexities of their emissions and disclosures.**

We have provided specific feedback in relation to particular questions in the consultation document below.

**Question 1. Do you have any comments on the design principles or the key decisions?**

The design principles and key decisions appear well thought out and reasonable.

We support the pragmatic approach to developing a temporary standard at this stage, which aligns with international standards (ISAE 3410 and ISO 14064-3). This will allow XRB to monitor, and if applicable, to align, with new reporting and assurance standards for sustainability disclosures currently being developed by international organisations (including ISO, IAASB, ISSB and IESBA). It also recognises anticipated changes to the scope of disclosures that will need to be assured in the future, including all climate change disclosures and wider sustainability matters, that may necessitate different requirements for assurance engagements than those in the current exposure draft.

We support the profession-agnostic approach that recognises the two relevant international standards currently used in New Zealand, as a way of promoting trust and confidence in the disclosures made by reporting entities. We have a community of climate change professionals in New Zealand, with strong scientific and technical knowledge, who are already working alongside our Climate Reporting Entities (CREs) and other organisations in New Zealand who are choosing to voluntarily disclose their emissions. These climate change professionals are already recognised as trusted experts and as people with the knowledge and skills to understand the complex science

associated with climate change and how that impacts an organisation. We believe New Zealand will benefit greatly from these experts being involved in assurance of GHG emissions disclosures (where they are not involved in preparing them for the reporting entity). They should be able to complete that assurance using a standard they are already familiar with and have confidence in, such as ISO 14064-3:2019. As GHG emissions disclosures assurance matures, we believe there will be additional benefits in assurance practitioners who use ISO 14064-3 also familiarising themselves with methods used when assuring in accordance with ISAE 3410, to further develop the high quality of their assurance engagements. We believe the same will be true for financial auditors who may currently be familiar and comfortable with ISAE 3410 – gaining an understanding of ISO 14064-3 can only improve the service they provide to reporting entities.

**Question 2. Are you aware of any other assurance standards that are currently being used in New Zealand to undertake GHG emissions assurance engagements?**

We are not aware of any other assurance standards, commensurate with ISO 14064-3 or ISAE 3410, that are currently being used in New Zealand to undertake GHG emissions assurance engagements.

As the scope of assurance engagements broadens in the future, we encourage XRB to ensure that any future standards consider the technical and scientific understanding required to provide meaningful assurance against those broader climate change and sustainability matters.

**Question 3. Do you consider the proposed ethical requirements are appropriate? If you disagree, please explain why.**

We strongly support the simple yet robust, principles-based approach to ethics requirements. This ensures a level playing field for all assurance practitioners, regardless of their core profession, without placing an undue burden on how practitioners demonstrate compliance with the ethics requirements. It allows practitioners to continue to work under their professional or accreditation bodies' requirements, where these align with the ethics principles in the exposure draft. It also ensures that reporting entities receive a consistent approach to the assurance engagement regardless of which assurance practitioner they choose to engage.

We agree that independence needs to be a fundamental principle to ensure those relying on the assurance can have a high-level of confidence in it.

**Question 4. Do you consider the proposed quality management requirements are appropriate? If you disagree, please explain why.**

We strongly support the principles-based approach to quality management. We expect that these principles are already being applied by professional climate change practitioners and assurance practitioners in New Zealand. Again, this principles-based approach will ensure that reporting entities receive a consistent approach to the assurance engagement regardless of which assurance practitioner they choose to engage.

**Question 7. Do you support the proposed inclusion of Key Matter, Emphasis of Matter, Inherent Uncertainty and Other Matter paragraphs where appropriate?**

We support the proposed inclusion of Key Matter, Emphasis of Matter, Inherent Uncertainty and Other Matter paragraphs, where appropriate, as a way to help those relying on the assurance to understand the disclosures better and to make decisions on how they may respond to them.

**Question 11. Do you have any other comments on the proposed standard? If so, please specify.**

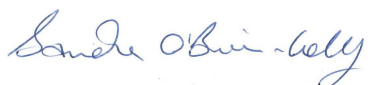
We strongly support XRB's decision to build on existing international standards currently used in New Zealand. This recognises the competencies of assurance practitioners who are currently

verifying GHG emissions statements in New Zealand. It also provides organisations with greater ability to choose an assurance practitioner with the skills and competencies that suit the nature and technical complexities of their emissions and disclosures.

We believe that the profession-agnostic and principles-based approaches to ethics and quality included in the exposure draft will be increasingly important in future versions of XRB's assurance engagement standards, especially when the scope of disclosures requiring assurance increases to include all climate change disclosures and wider sustainability matters. Ensuring future assurance engagement standards recognise and allow for expertise and experience of assurance practitioners who are not financial auditors will be vital to provide competent and credible assurance on those wider matters.

Thank you for the opportunity to comment on the exposure draft.

Yours,



Sandra O'Brien-Kelly  
Principal Environmental Scientist

On behalf of Tonkin & Taylor Ltd

22-Mar-23

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External Reporting Board,  
PO Box 11250,  
Manners St,  
Wellington, 6142

23<sup>rd</sup> March 2023

Submitted via email

Submission on:

## **Assurance Engagements over GHG Emissions Disclosures**

By Carbon and Energy Professionals New Zealand

## INTRODUCTION

CEP welcomes the opportunity to comment on the XRB's Assurance Engagements over GHG Emissions Disclosures consultation. It would be easy to drop-in a quick solution for setting Standards for assurance engagements but that would carry short and long term implications that would most likely not be in the best interests of New Zealand. We applaud the XRB for adopting a profession agnostic stance on assurance and taking a considered view on setting standards even though they may be temporary and are likely to be superseded in the medium term when MBIE has concluded its consultation process. Making poor decisions now could see highly capable practitioners excluded from the market to the long term detriment of New Zealand companies and the New Zealand economy.

CEP has an interest in climate-related financial disclosures as many of our members and certification holders will be directly involved in the assessment and mitigation of climate related risk and in the assurance process under consultation.

For context, CEP is the professional body that represents energy efficiency and carbon professionals in New Zealand. We train and certify individuals in a wide array of energy efficiency, carbon management and carbon measurement disciplines.

CEP is affiliated with Engineering New Zealand as a Collaborating Technical Society. The CEP membership comprises expert level practitioners in energy efficiency and carbon management, the people who will deliver carbon reductions across the New Zealand business environment.

CEP is a not-for-profit Incorporated Society. Supporting effective energy, carbon and sustainability management is embedded in our constitution.

We have separated our comments into two sections. Firstly, we respond to the questions raised in the consultation paper. Secondly, we provide some drafting comments.

## RESPONSES TO QUESTIONS

Our comments on the questions raised by the XRB are:

1. Do you have any comments on the design principles?

**We support the design principles as laid out. We do, however, wonder if Independence warrants inclusion as a design principle in its own right. While the stated Principles include the requirement the engagement leader ensures all those involved satisfy the required level of independence and the Exposure Draft includes a section dedicated to independence, the issue is fundamental and, arguably, should be included in the list of principles.**

**A point of detail in this section is that under the Importance of Ethics Principle, the document refers to professional and accreditation bodies placing ethical and**

quality management requirements on their “members”. Best practice for organisations operating the certification of persons requires certifications/accreditations to be administered independently of any memberships. Accordingly, “members” should be replaced with “members and certification holders”.

2. Are you aware of any other assurance standards that are currently being used in New Zealand to undertake GHG emissions assurance engagements?

**We are not aware of any other standards in use in New Zealand.**

3. Do you consider the proposed ethical requirements are appropriate? If you disagree, please explain why.

**We note the inclusion of independence as a fundamental principle (Consultation Document, P13) and wonder if this should be included in its own right as a design principle.**

**The first listed ethical requirement (Consultation Document, P13) includes “A prohibition to prevent an assurance organisation or an assurance practitioner from assuring their own work and prevent other services .....**”

**We believe there should be a further extension of this prohibition to prevent assurance providers dictating acceptable (and by default, not accepted) other suppliers of certain services. For example, credible software providers could be excluded from the market if assurance providers were in a position to influence decisions on which software is used, even if not their own. While this is not necessarily an issue of independence, it is an issue of market influence and assurance practitioners should not be in a position to unduly influence supplier selection of the assurance client.**

4. Do you consider the proposed quality management requirements are appropriate? If you disagree, please explain why.

**The proposed quality management requirements seem reasonable.**

**However, we question the use of the word “satisfactory” in Requirement 49. It is conceivable that “satisfactory” could be associated with a specific outcome rather than full completion of the assurance process. If the word is inserted as a synonym for full it is probably redundant as “completion” does not require an adjective, a report would be either completed or not completed. If the insertion is intended to be interpreted as thorough, it would be better to use that word, or something similar.**

5. Do you consider the proposed requirements in relation to the assurance practitioner's report are appropriate? If you disagree, please explain why.

**The proposed requirements mostly seem appropriate. We believe the wording should be strengthened in regard to the credentials of the engagement leader and others. The consultation document states the exposure draft “encourages the assurance practitioner to disclose ..... and details of the qualifications and experience of the engagement leader and others involved with the engagement if [our emphasis] they consider they would be useful”. It is important well-credentialed and highly competent practitioners are engaged in assurance provision. It would add negligible additional burden on assurance providers to list their credentials and in the unregulated environment we shall be under for the next few years at least, having providers list credentials will contribute to enhancing trust and confidence. We suggest the engagement leader, if not all engaged in the assurance, should be required to list credentials rather than encouraged. This should be reflected in inclusion of credential listing under Requirement 41 in the exposure draft and supplemented by something similar for team members.**

6. Do you have any concerns regarding the different terminology that may be used to express the assurance conclusion or opinion? If so, do you have any suggestions to address these concerns?

**There is a significant difference in the demand on the assurance provider between the two standards in respect of forecasts (Consultation Document, illustrative wording p.16). The ISAE 3410 Standard is phrased in the negative, i.e. that “nothing has come to our attention that causes us to believe that the GHG disclosures are not prepared ..... in accordance with the standards”. The ISO14064:3 Standard is phrased in the positive, i.e. that “the forecast is properly prepared”. This puts the onus on practitioners using the ISO Standard to endorse the methodology and inputs to the forecasts, not just confirm it has not picked up areas of concern. In effect, the wording in the ISO Standard requires the practitioner to endorse the methodology and inputs, whereas the ISAE wording requires practitioners only to identify obvious flaws. The ISO standard is, therefore, more stringent and the difference could, conceivable, skew the market more to the use of the more lax ISAE Standard. While, at first glance, this distinction may appear trivial, the onus on positively approving the methodology employed will carry significantly more risk and liability for the ISO practitioner. It would be beneficial if the XRB could address this imbalance.**

7. Do you support the proposed inclusion of Key Matter, Emphasis of Matter, Inherent Uncertainty and Other Matter paragraphs where appropriate?

**These inclusions seem reasonable.**

8. Are there any other requirements that you consider should be included in relation to the assurance practitioner's report? If so, please specify.

**No.**

9. Do you consider the requirements in relation to the assurance practitioners' competence are appropriate? If not, what else do you consider should be included in relation to this?

**In the unregulated market that New Zealand will see for the next few years at least, pending the conclusions of the MBIE review of licensing in this area, it will be important to use mechanisms other than licensing to encourage high standards and competence. The Standards should, at the very least, require Engagement Leads list credentials and, we believe, this should also apply to supporting team members.**

**In its communications, The XRB should also be encouraging the commissioning of well-credentialed practitioners for assurance engagements.**

10. Do you consider the requirements in relation to reliance on the work of others are appropriate? If not, what do you consider should be included in relation to this?

**These are fair, although with the presented wording it isn't clear what 20b adds over 20a, obtaining an understanding would be a subset of evaluating competence and so 20b is redundant.**

**In Requirement 21, "and independence" may add clarification and weight to the sentence ending "expert's objectivity".**

11. Do you have any other comments on the proposed standard? If so, please specify.

**No, other than to congratulate the XRB on a sound start to developing appropriate Standards.**

## DRAFTING COMMENTS – EXPOSURE DRAFT

Page	Item	
3	3c	There should be an apostrophe at the end of users in the final line.
10	49	Use of the word satisfactory here could lead to ambiguity, see above.
11	51b	There should be a comma after from in the first line.
12	A3 bullet 2	The spelling of judgement is inconsistent with the remainder of the document.

We hope the XRB finds these comments useful and if there any areas of clarification required please just let us know.



CEO  
Carbon and Energy Professionals New Zealand  
March 2023



23 March 2023

Ms Michele Embling  
Chair  
New Zealand External Reporting Standards Board  
Level 7, 50 Manners Street  
Wellington 6142  
New Zealand

**Re: Submission on the Standard on Assurance Engagements over GHG Emissions Disclosure**

Dear Michele

The Auditing and Assurance Standards Committee of the Accounting and Finance Association of Australia and New Zealand (AFAANZ) is pleased to comment on the External Reporting Board's Proposed Standard on Assurance Engagements over GHG Emissions Disclosure.

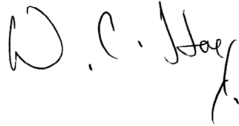
The attached submission consists of our comments on each of the specific questions in the discussion paper.

AFAANZ is the peak regional academic accounting and finance association, and counts among its membership the region's leading and emerging accounting and finance researchers. The Auditing and Assurance Standards Committee is an ad-hoc committee under the governance of AFAANZ's Auditing and Assurance Special Interest Group, formed to give a voice on standard setting deliberations to the academic research literature.

The views expressed in the comments that follow are those of the undersigned Committee members and do not necessarily reflect the official position of AFAANZ. While the views expressed represent a consensus view of the Committee, they do not necessarily reflect the individual views of every member.

If you have any questions on our submission, please contact either of the Committee Co-Chairs (David Hay – [d.hay@auckland.ac.nz](mailto:d.hay@auckland.ac.nz) or Noel Harding – [n.harding@unsw.edu.au](mailto:n.harding@unsw.edu.au)).

Yours Sincerely,

A handwritten signature in black ink that reads "D. C. Hay". The signature is written in a cursive style with a large initial "D" and a small "C" followed by "Hay".

David Hay  
Professor of Auditing, University of Auckland

On behalf of:

Chris Gan (Lincoln University), Irene Ge (UNSW Sydney), Noel Harding (UNSW Sydney), David Hay (University of Auckland), Linh Ho (Lincoln University), Dinithi Ranasinghe (University of Otago), Harj Singh (Curtin University) Nigar Sultana (Curtin University), Shan Zhou (University of Sydney)



# **Auditing and Assurance Standards Committee of the Accounting and Finance Association of Australia and New Zealand (AFAANZ)**

## **Comments on the Exposure Draft of the Standard on Assurance Engagements over GHG Emissions Disclosure**

We attach our submission in response to the questions in the Consultation Document. We are pleased to have the opportunity to comment on this innovative standard about such an important topical issue. We have concentrated in our submission on issues where there is published research that contributes to deciding on the appropriate requirements for this standard.

### **Question 1. Do you have any comments on the design principles or key decisions?**

We have comments, namely that:

1. The proposals allow the use of two alternative standards and this could cause confusion among users.
2. One of the standards, ISO 14064-3 is not freely available to users.
3. We are concerned with a potential lack of consistency and harmonization that will accompany the approval of both ISAE(NZ) 3410 and ISO 14064-3. Although assurance practices will share many similarities, they are likely to be different and this may detract from public trust and confidence in GHG. Several research studies investigating the adoption of International Standards of Auditing suggest that harmonized audit practices and uniformity in those practices enhances public confidence and trust. Krasodomska, Simnett and Street (2021) and Venter and van Eck (2021) note the importance of harmonized assurance practices over Extended External Reporting in facilitating trust and confidence. Recent research by Harding et al. (2023) finds variations in perceptions of audit quality when different standards are referred to in the Auditor's Report. We are concerned that allowing two similar, but different, standards to be used will detract from consistency and comparability and undermine trust and confidence.
4. There is evidence that non-accounting assurance providers are increasingly making use of ISAE 3410 (Ge, Simnett and Zhou 2022).

We recommend that consideration should be given to develop a single self-contained standard using the best of the two current statements. If this is not feasible, then the differences between the types of assurance providers should not be conspicuous, and the same assurance report should be used by both.

### **Question 2: Are you aware of any other assurance standards that are currently being used in New Zealand to undertake GHG emissions assurance engagements?**

A recent study by Hsiao et al (2022) shows that, out of a small number of sustainability assurance engagements in New Zealand, the assurance standards being used were either ISAE 3410 or ISO 14064-3. There is research showing that another standard (AA1000AS) has been used (Farooq and de Villiers 2019), but that standard applies specifically to stand-alone sustainability reports and would not be appropriate for these disclosures.

We are therefore not aware of other assurance standards.

**Question 3: Do you consider the proposed ethical requirements are appropriate? If you disagree, please explain why.**

The committee members had considerable concern about the issue of ethical requirements.

1. Paragraphs 6 (b), (c), and (d) of the proposed standard which set out that professional and ethical standards are “deactivated” seem likely to raise concern among users and to reduce trust and public confidence in assurance providers.
2. There is a risk that different standards will be applied by different groups of practitioners. Assurance providers who are part of a firm that is subject to PES 1 and PES 3 for other engagements are likely to continue to comply with these standards under their firm policies for their greenhouse gas emission engagements, while other assurance providers will not. This will result in inconsistency, and reduced standards for one group.
3. Non-accounting practitioners are less well-informed about independence. Research by Ge et al. (2022) showed that while 93% of accountant assurance providers acknowledged their compliance with the IESBA Code of Ethics, the non-accountant assurance providers either do not acknowledge their independence, or add a sentence describing their independence in a variety of ways that are not comparable with other reports.
4. The proposed standards requires assurance providers to “address familiarity threats” without being specific. We suggest that more detail is needed so that practitioners know how to address these threats. We recommend a more detailed requirement such as: “address familiarity threats by providing appropriate safeguards such as rotation of the lead assurance provider after seven years”.
5. The issue of whether the greenhouse gas emissions assurance provider may also conduct the audit of the entity’s financial report is a threat to independence that should be addressed. This issue is not directly addressed in the proposed standard, and some entities could be in doubt about whether their financial report auditor may also audit greenhouse gas emission disclosures. There is research showing that companies are less likely to appoint their financial statement auditor as assurance provider for other services such as this when their market is sensitive to provision of other services (Lu et al. 2022). In addition research shows that joint provision of audit and sustainability assurance services by the same practitioner leads to beneficial knowledge spillovers, which also enhance the quality of the sustainability assurance (Ruiz-Barbadillo and Martínez-Ferrero 2020).

Because of issues (1), (2) and (3), we recommend that PES 1 (the Code of Ethics) should apply to Greenhouse Gas engagements.

We recommend that the standard should state clearly whether conducting the audit of the financial report and also providing assurance over GHG emissions is a threat to independence.

**Question 4 Do you consider the proposed quality management requirements are appropriate? If you disagree, please explain why.**

The subcommittee is concerned that the proposed quality management standards will lead to inconsistency of quality management among the different types of provider. There is evidence

that disclosure of quality management by practitioners from outside the accounting profession is weak, even when they are required to disclose such a framework in their assurance report when they are using ISAE3000/3410. This potentially raises the question as to whether they do not have sufficient quality control management in place or they simply do not follow the requirement in the assurance standard (Ge et al. 2022).

Paragraphs 42 to 46 of the proposed standard do not provide specific guidance on the overall quality management system applied at the practitioner firm level, which is crucial for ensuring practitioners comply with relevant ethical principles.

Because of these issues, we recommend that PES 3 (the standard on quality management) should apply to Greenhouse Gas engagements.

**Question 5. Do you consider the proposed requirements in relation to the assurance practitioner’s report are appropriate? If you disagree, please explain why.**

We suggest that the statement of the client’s responsibilities in the assurance report should include the responsibilities of directors’ (or those charged with governance) and the responsibilities of management.

We recommend requiring disclosure of materiality. There is research evidence that investors find disclosure of the reliability of information useful when the auditor’s materiality threshold is disclosed but not useful when it is not disclosed (Eilifsen et al. 2021).

We have also made some comments about assurance reports under questions 6 and 7.

**Question 6. Do you have any concerns regarding the different terminology that may be used to express the assurance conclusion or opinion? If so, do you have any suggestions to address these concerns?**

We have concerns regarding the different terminology that may be used to express the assurance conclusion or opinion. ISO 14064.3 reports might use terms like “validation”, “verification”, “verified at the limited level of assurance”. These terms are not used in ISA 3410 reports. Different terminology will lead to different actions on the part of assurance practitioners and different interpretations by users. There is evidence in a different context, the choice of audit procedures, that different verbs used in auditing standards, such as assure, verify and validate make a difference to their understanding by readers (Stepankova et al. 2022). Harding, Khan and Stepankova (2023) also find that users perceive different meanings from an auditor’s report when different, but equivalent, standards are referred to in the report. Moreover, different verbs (e.g., validate, verify, assure) are associated with different levels of thinking (e.g., Stepankova et al 2022) meaning that variation in terminology may lead to real and not just perceived differences in the level of assurance perceived.

Research highlights that users do not understand different levels of assurance as it relates to audits. To the extent that the additional terms of verification (limited or reasonable assurance) and validation (limited assurance) are introduced in the GHG setting, this is likely to detract from the public interest by frustrating a consistent interpretation of assurance opinions.

We recommend that the XRB remove the possibility of variation in the terminology employed in the prescribed format of the assurer’s conclusion or opinion.

**Question 7. Do you support the proposed inclusion of Key Matter, Emphasis of Matter, Inherent Uncertainty and Other Matter paragraphs where appropriate?**

We support including these headings in the assurance report. However, non-accountant assurance providers are likely to be unfamiliar with these terms and we suggest that more explanatory material should be included in the standard. We agree that including Key Matters

is likely to be useful, but we suggest removing the second part of section 31 that refers to enhancing the communicative value of the assurance report, because research evidence does not support that it does (see below – it has beneficial effects in other ways). We also suggest that more explanation is needed about how to identify Key Matters, and of when Emphasis of Matter, Inherent Uncertainty and Other Matter paragraphs should be used.

Research studies using large sample archival data find only limited capital market response to key audit matters in financial statement audit reports (Lennox et al. 2022), but research studies using experiments generally conclude that these additional paragraphs have informational value to users in the context of financial statement audit reports (e.g., Moroney et al. 2021). As GHG related disclosure is inherently more diverse, less standardized and developed and subject to higher level of uncertainty compared to financial information, the additional information contained by including Key Matters in the auditors' report is expected to play a more significant role in adding to the transparency of these disclosures.

Research investigating the merit of reporting KAMs generally reveals that such reporting leads to little if any improvement in user understanding of the audit function (Sirois et al. 2018), but has been shown to lead to higher perceived value in the audit for audits performed by non-big 4 auditors (Moroney et al. 2021) and is associated with improved financial reporting quality. These findings are broadly consistent with the research that has been undertaken in a New Zealand setting (Al-mulla and Bradbury 2022; Li et al. 2019). Section 31 of the Exposure Draft requires that a Key Matters section shall be included in the assurance report when such reporting will improve user understanding of the assurance function. The research suggests that this requirement is unlikely to meet that objective. However, including Key Matters may be beneficial in enhancing perceived confidence in work done by assurance practitioners coming from broader backgrounds as well as encouraging better reporting. With this in mind, the XRB may wish to reconsider the requirement regarding Key Matters to remove reference to improving users' understanding and communicative value of the assurance report.

It is not clear how Key Matters will be identified by the assurance provider. In the case of Key Audit Matters (KAMs) in the audit of a financial report, there is a clear mechanism by which KAMs emerge, namely matters discussed with the audit committee.

We recommend providing guidance on how to identify Key Matters will help to make them more consistent and more useful.

**Question 8. Are there any other requirements that you consider should be included in relation to the assurance practitioner's report? If so, please specify.**

We do not have any comments regarding question 8.

**Question 9. Do you consider the requirements in relation to the assurance practitioners' competence are appropriate? If not, what do you consider should be included in relation to this?**

We do not have any comments regarding question 9.

**Question 10. Do you consider the requirements in relation to reliance on the work of others is appropriate? If not, what do you consider should be included in relation to this?**

The proposed standard could benefit from more explicit guidance on the use of experts and their independence.

Research suggests that auditors, when assessing the competence of others, are likely to anchor on their own knowledge in the area in question and inflate their perception of the expert's competence. In a GHG setting, Kim, Green and Johnstone (2016) report that auditors may place excessive reliance on the views/conclusions of those with GHG expertise. These findings are consistent with research showing that auditors are sensitive to source credibility (Hirst 1994) and a general overconfidence bias among auditors ((Koch and Wüstemann 2011; Hardies et al. 2011). We recommend cautioning assurance practitioners on the risk of overreliance on experts' work.

There is also a risk regarding the independence of experts. Boritz et al. (2020), to illustrate, find that auditor's and their experts may not have consistent views on, and levels of, objectivity and professional skepticism. Moreover, auditors were found to trust their experts and relied heavily on their firm's quality control systems to ensure the competence and independence of their specialists. Given that PES 1 and 3 will be 'deactivated', the identified reliance on firm quality controls will not be appropriate in the conduct of GHG assurance. The current requirements in paragraphs 20 and 21, as well as application material in paragraph A25 may not be sufficient.

We recommend that the XRB reconsider the deactivation of PES 3 (or to introduce relevant provisions of PES 3 into the proposed standard).

**Question 11. Do you have any other comments on the proposed standard? If so, please specify.**

We were concerned about potential contagion effects. If some low-quality assurance services follow the introduction of these proposals, then this might also damage the reputation of other assurance services including auditing.

The research that has been undertaken highlights that there are unique quality threatening dimensions of multidisciplinary teams that we would encourage the XRB to address in the proposed standard. There is evidence that use of multi-disciplinary teams of accountants and non-accountants on sustainability assurance engagements improves the quality of assurance tasks (Farooq and De Villiers, 2019). However, Ekasingh, Simnett and Green (2019) note that, while multidisciplinary teams bring expertise across different disciplines, differences in mindset, different frames of reference and communications/coordination difficulties may impede the team's effectiveness. They find that effective communication on task relevant information and perspectives (i.e., effective elaboration) is necessary to realize the benefits of the diversity in knowledge and experience. Kim, Green and Johnstone (2016) find that multidisciplinary GHG assurance teams may not optimally weight the views of team members with different expertise and that this bias may be exacerbated or attenuated depending on the specific expertise of the reviewer.

We recommend that auditors are cautioned that there are risks when using multidisciplinary assurance teams.

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23 March 2023

External Reporting Board

PO Box 11250, Manners St Central,

Wellington 6142.

Submitted online to: [Consultations - assurance standards in development](#)

Attention: April Mackenzie

Tēnā koe April

**Exposure Draft: Assurance over GHG Emissions Disclosures**

We appreciate the opportunity to comment on the External Reporting Board's (XRB's) Exposure Draft: *Assurance over GHG Emissions Disclosures* (ED).

Overall, we support the development of a standard that will apply to all assurance practitioners that provide assurance on greenhouse gas (GHG) emissions disclosures and, in future, other climate-related disclosures (CRD).

***A standard that enables high-quality assurance engagements during the interim period***

The proposed standard will be effective during an interim period where FMC reporting entities' reporting on GHG emissions disclosures, and the assurance thereof, will be mandatory for the first time. During this period there will be no CRD assurance regulation or accreditation in place as an oversight mechanism.

Given the importance of FMC reporting entities, and the information being reported, the GHG emissions disclosures and assurance report thereon will be of high interest and subject to scrutiny by the wider public. The proposed standard will play an important role, in the interim, to support high-quality assurance engagements and should therefore set the highest level of quality management and ethical requirements.

Complying with the professional and ethical standards PES 1, PES 3 and PES 4 form an integral part of high-quality assurance engagements and are the premise on which the ISAEs NZ are based. Therefore, we are of the view that the assurance practitioner needs to comply with those professional and ethical standards.

All assurance engagements performed on behalf of the Auditor-General will be performed at the same level of integrity, ethics, and quality. Assurance practitioners, performing these engagements on the Auditor-General's behalf, will therefore be required to comply with the proposed standard and, in addition, comply with the Auditor-General's quality management, independence and ethical standards.

We acknowledge that the proposed standard contains the essential elements of the XRB's PESs and we support the inclusion of explicit prohibitions on self-review threats; performing management responsibilities; and having financial interests in the entity that is being assured.

***Incorporating ISO 14064-3: 2019 into the standard (by reference)***

It is important for all stakeholders of the GHG emissions disclosures and the assurance report thereon, to understand the assurance standards that were applied in the assurance engagement. Stakeholders should be able to engage with the standards and have the opportunity to influence them. A transparent, independent standard setting process that weighs and balances all stakeholders' views (and includes necessary oversight), is essential to be responsive to the public interest.

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ISO 14064-3 is not a publicly available standard, because it is currently only available to ISO members. It is our understanding that only full members of ISO can influence the development or amendment to ISO standards.

We therefore question whether incorporating ISO 14064-3 in the proposed standard (by reference), is “otherwise appropriate”, and complies with the principles of good law making outlined in the LDAC Legislation Guidelines<sup>1</sup> (which include the principles of accessibility and legitimacy).

Further details of our overall response are provided to the individual Consultation Questions attached to this letter.

If you have any questions about our submission, please contact Miranda Biggins Director, Audit Operations – Audit Quality Group at [Miranda.Biggins@oag.parliament.nz](mailto:Miranda.Biggins@oag.parliament.nz). As our Office does with our other submissions, we will publish this on our website in due course.

Ngā mihi nui,



Todd Beardsworth  
Assistant Auditor-General – Audit Quality

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<sup>1</sup> [LDAC Legislation Guidelines 2021](#) at cl 15.3.

## Responses to the Consultation Questions

### Design principles and key decisions

Question 1. Do you have any comments on the design principles or key decisions?

We agree that the design principles applied in the development of the proposed standard are appropriate. However, we do not agree with key decisions taken as described below.

#### ***Trust and confidence***

We do not support the proposal to give practitioners the option of complying with either ISO 14064-3 or ISAE 3410.

In terms of section 25(a) of the Financial Reporting Act 2013 (FR Act), once the XRB issues the proposed standard under section 12 of the FR Act (and complies with the publishing requirements in Part 3 of the Legislation Act 2019), the proposed standard will become secondary legislation.

Consequently, as empowered by section 64(1) of the Legislation Act 2019, ISO 14064-3 will be incorporated into the standard (by reference).

We note that before secondary legislation incorporating material<sup>2</sup> (i.e., ISO 14064-3) by reference in reliance on section 64 is made, the Chief Executive of the administering agency (in this case, the External Reporting Board), must:<sup>3</sup>

- give public notice of the proposal to incorporate the material, of the reasons for the proposal, and of how the material has been made publicly available; and
- ensure that copies of the proposed material are publicly available in that way; and
- allow a reasonable opportunity for persons to comment on the proposal; and
- after considering any comments made and having regard to the purpose of the Legislation Act 2019, be satisfied that:
  - the secondary legislation clearly identifies the material incorporated; and
  - the means of making the material publicly available is sufficient to enable persons to whom the law applies to find and obtain copies of the material incorporated; and
  - it is otherwise appropriate to incorporate the proposed material as part of the secondary legislation.

We raise these points because, while the Board is plainly giving public notice of its intention to incorporate ISO 14064-3 into the standard by reference (as part of this consultation process), we are unclear how it will be made publicly available (given that it is currently only available to ISO members).

We also question whether incorporating an international standard by reference (which only full members of the International Organisation for Standardisation are permitted to provide input into), is “otherwise appropriate”, and complies with the principles of good law making outlined in the LDAC Legislation Guidelines<sup>4</sup> (which include the principles of accessibility and legitimacy).

We note that there are three levels of membership and only full members can develop or make any future changes to the ISO standards. Correspondent members may observe the development of standards and subscription members can only apply the standards.

This contrasts with the auditing and assurance standards set by the XRB or internationally where all stakeholders can influence the standards.

An alternative approach would be to require assurance practitioners to comply with ISAE (NZ) 3410 and incorporate into the proposed standard, guidance based on ISO 14064-3, which the XRB determined to be appropriate.

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<sup>2</sup> 'Material' includes a standard of an international organisation, [section 64\(1\)\(a\)](#) of the Legislation Act 2019.

<sup>3</sup> [Cl 1, Schedule 2](#) of the Legislation Act 2019.

<sup>4</sup> [LDAC Legislation Guidelines 2021](#) at cl 15.3.

## ***Accountability and clarity***

We agree with placing responsibility on the engagement leader to ensure that all those involved in the engagement meet the required level of independence and competence and collectively enable compliance with the requirements of the proposed standard.

## ***Importance of quality and ethics***

The application of PES 1, PES 3 and PES 4 should be mandatory for all assurance practitioners who wish to provide assurance over GHG emissions and other sustainability related disclosures. This approach is appropriate because the professional and ethical standards form the basis for applying the ISAE NZ standards. Complying with the professional and ethical standards are widely regarded as being in the public interest and forms an integral part of high-quality assurance engagements.

We also note that climate statements will likely sit within an entities annual report. It does not seem appropriate that two assured sections of an annual report could be underpinned by potentially differing professional and ethical standards.

The Auditor-General would only permit assurance practitioners, performing these engagements on his behalf, to comply with the Auditor-General's Auditing Standards. Assurance practitioners of multi-national audit firms may also be required to comply with global policies on ethical requirements and quality management. This scenario has the potential to result in an unlevel playing field (that is, those practitioners who are members of a professional accounting body in public practice may be held to higher standards at additional cost).

If the above recommendation is not followed, we provide additional commentary in the paragraphs that follow to improve the proposed standard.

We support the inclusion of ethical and independence requirements in the proposed standard, particularly the prohibitions in relation to self-review threats, performing management's responsibilities, and having financial interests in the entity being assured. We also support the inclusion of quality management requirements, in particular an 'independent review' of the engagement team's work prior to issuing the assurance report.

We agree with the reference to the 'assurance organisation' and the 'assurance practitioner' in paragraphs 11, 12 and 39 in relation to independence, because assurance organisations often establish internal separation requirements to allow different practitioners of the same organisation to provide assurance and preparation or advisory services to the same entity. This is consistent with our own standard, AG-PES 1 which does not permit internal separation as a mitigation for self-review threats.

However, assurance practitioners who are not members of a professional accounting body in public practice may not be familiar with the concepts described in the XRB's PESs and how they are applied in practice. Some requirements have to be described in more detail to enable an equal understanding of the proposed standard's expectations. Comprehensive guidance and application material are also needed to enable consistent understanding and application of the proposed standard.

In our view, the following are examples of circumstances where concepts from PES 1 are not described in sufficient detail:

- Paragraph 7(a) describes independence as freedom from conditions or relationships which would compromise integrity or objectivity but does not describe that independence could be based on perception as well as fact. In general independence considerations require professional judgement. PES 1 provides examples/scenarios to illustrate the fundamental principles of ethical behaviour and how they should be applied. This may be ineffective when the proposed standard does not require compliance with PES 1.
- Paragraph 11 refers to a 'reasonable and informed third party' with some explanation in the application material. This is an important concept that is also applied more strictly in our own standard, AG-PES 1 i.e., the reasonable and informed party is the general public who considers information that is only available in the public domain.
- Paragraph 16 requires the assurance practitioner to address familiarity threats that arise due to long association with the assurance client. PES 1 contains rotation and cooling-off periods for assurance engagements which are currently applied by assurance practitioners who perform engagements under the XRB's standards.

The paragraph also refers to 'assurance organisation'. It is unclear whether the intention is that 'firm rotation' would also have to take place at regular intervals. This should be clarified.

- Paragraph 17 requires independence during the engagement and for the reporting period. This does not seem sufficient because the assurance practitioner could have assisted with baseline information or the corresponding information.

The following illustrates our comment in respect of PES 3 and PES 4:

- Paragraphs 42 to 56 of the proposed standard describe what is required in terms of quality management and independent reviews. There is however no application material for the assurance practitioner to consider and therefore may not support consistent application by all assurance practitioners.

Other requirements that may not be applied consistently by all assurance practitioners (because the requirements contain no application material for the assurance practitioner to consider) include:

- Paragraph 22 requires the risk of management bias to be considered in relation to GHG disclosures. This is an important concept that we fully support because it promotes professional scepticism. We recommend that application material be included similar to the information contained in ISA NZ 540 (Revised) to clarify the XRB's expectation. Also refer to our response to question 11 in respect of management commentary and to issues such as 'greenwashing'.
- Paragraph 25(a) requires the assurance practitioner to perform procedures appropriate in the circumstances where a material misstatement is identified. There is no application material on the work effort needed to meet the requirement. We recommend that application material be included similar to the information contained in ISA NZ 450 (Revised) to clarify the XRB's expectation.
- Paragraph 28 refers to excluded information. Excluded information is captured by the 'other information' requirements in the proposed standard. It would be helpful to give examples of what the XRB intends by the term 'excluded information' in the proposed standard. The proposed standard doesn't appear to address the completeness of the disclosures subject to assurance. Those disclosures may be completely missing from the disclosure document or may be disclosed in a part of the disclosure document that is not being assured, which could result in material misstatements.
- Paragraphs 31 to 33 describe Key matters, which is a new concept that is derived from ISA NZ 701. More application material from that standard should be included in the proposed standard so that assurance practitioners that are not familiar with ISA NZ 701 can understand the concept.

### **Transparency**

We strongly support transparency about the assurance engagement by providing assurance practitioners the tools that will enable them to enhance the communicative value of the assurance report. We support 'key matters' being reported in the assurance report for both limited, reasonable or mixed assurance scenarios and recommend that 'key matters' be mandatory for all engagements to enable consistent application by all assurance practitioners. This may eliminate any possible stakeholder confusion as to why only some entities' assurance reports contain a 'key matter'.

We note that the IAASB in their development of the international sustainability assurance standard are not proposing 'key matters' for the following reasons:

- *Users may perceive a greater level of assurance than that provided in a limited assurance engagement;*
- *Costs may outweigh benefits for these types of engagements; and*
- *A need to maintain a clear distinction between other types of assurance engagements and audits of financial statements, including flexibility in reporting for the former.*

We do not agree with the above reasons because:

- 'Key matters' relate to matters that were of most significance during the engagement. In a limited assurance engagement where the assurance practitioner becomes aware of a possible material misstatement, additional work will be required to reach a conclusion. Such a scenario would be regarded as a 'key matter' and therefore appropriate for communication in the assurance report.
- The benefits of being transparent to the users of the assurance report should outweigh the cost.
- Reporting on 'key matters' does not make the assurance report less flexible or distinguishable from an audit report on financial statements.

## Compliance with existing GHG assurance standards (such as ISAE or ISO)

Question 2. Are you aware of any other assurance standards that are currently being used in New Zealand to undertake GHG emissions assurance engagements?

We currently apply the Auditor-General's auditing standard: AG-4 *The audit of performance reports* in the public sector where a public entity reports climate-related disclosures within their service performance information.

We are also aware of Assurance Standard (AA1000AS v3) which is issued by AccountAbility and applied globally for sustainability assurance engagements.

## Ethical requirements, including independence

Question 3. Do you consider the proposed ethical requirements are appropriate? If you disagree, please explain why.

As described in our letter and our response to question 1, we recommend that PES 1 be applied by all assurance practitioners. If our recommendation is not accepted, we recommend that the ethical requirements and relevant application material be expanded in the proposed standard so that they create a level playing field, are understandable by all assurance practitioners and can be applied consistently.

This is important because, during the interim period there will be no CRD assurance regulation or accreditation in place as an oversight mechanism.

## Quality management

Question 4. Do you consider the proposed quality management requirements are appropriate? If you disagree, please explain why.

As described in our letter and our response to question 1, we recommend that PES 3 and PES 4 be applied by all assurance practitioners. If our recommendation is not accepted, we recommend that the quality management requirements be expanded with sufficient application material so that they create a level playing field, are understandable by all assurance practitioners and can be applied consistently.

This is important because, during the interim period there will be no CRD assurance regulation or accreditation in place as an oversight mechanism.

## Assurance Practitioner's Report

Question 5. Do you consider the proposed requirements in relation to the assurance practitioner's report are appropriate? If you disagree, please explain why.

Please refer to question 1 for our response on 'key matters'.

Additional comments on requirements and application material are described in the paragraphs that follow.

In the proposed standard, the term 'intended users' has been used for the 'addressee' of assurance report. This may be confusing when the auditor's report on the financial statements of FMC reporting entities is addressed to the shareholders. We recommend that the proposed standard explains who the 'addressee' of the assurance report is. If it is intended that the assurance report may be addressed to parties other than the shareholders, this should be made clear, for example, it may be that the addressee has been agreed.

Paragraph 24 requires the inclusion of an Other Matter paragraph to describe which comparatives have not been subject to assurance. Application material is needed to describe when this scenario would be

appropriate. We recommend that the scope section of the assurance report describe the information that was not subject to assurance, whether it be current year or comparative information.

Paragraph 25(b) requires an ‘Other Matter’ paragraph when the comparative information is materially misstated and not restated after being identified. We consider that the assurance opinion should be qualified if the comparative information has material misstatements (rather than merely stated in an ‘Other Matter’ paragraph).

We agree with paragraph 29 requiring the conclusion paragraph to be included first.

Paragraph 30 requires clear identification of the GHG disclosures that are subject to each level of assurance and the related conclusion. We appreciate that the proposed standard acknowledges that there will be circumstances where the disclosures may be subject to different levels of assurance. This is because NZCS-1 states “This Standard requires that this assurance engagement is a limited assurance engagement at a minimum.” The proposed standard is therefore appropriately designed to work with both reasonable and limited assurance engagements, as is ISAE 3410.

We support reasonable assurance for scope 1 and scope 2 GHG emissions disclosures. Our experience is that reasonable assurance can be provided for scope 3 GHG emissions also, but not without modifying the opinion. We believe that useful information can be provided to stakeholders on the robustness and evidential support for scope 3 GHG emissions through other means, for example:

- The scope section of the assurance report can be used to describe more appropriately what has been included/excluded with levels of assurance that are being provided.
- The summary of work performed can describe the work performed in detail – this section of a limited assurance report is generally described in more detail than for a reasonable assurance engagement.
- There is a separate section on inherent limitations where problematic areas related to scope 3 emissions could be described.
- The ‘key matter’ section can be used to describe the issue, the procedures performed and what the outcome of the procedures were.

We note that the proposed standard only includes an illustrative example of a limited assurance report. However, entities may agree with the assurance practitioner to have reasonable assurance or different levels of assurance over the different scopes of the GHG information. It is important to ensure that there is clarity over what is subject to each level of assurance and how that is communicated to users in the assurance report. We therefore recommend that the XRB include in the proposed standard, illustrative examples of a reasonable assurance report and a mixed assurance report (that includes both limited and reasonable assurance opinions) in addition to the limited assurance report. Below is a hypothetical example of what the opinion in terms of paragraph 30, could look like:

*Subject matter*

We have been engaged to provide a reasonable assurance opinion on the metrics listed in table (a) and a limited assurance conclusion on the metrics listed in table (b) below. The metrics described below have been prepared in accordance with NZ CS 1.

<b>(a) Reasonable assurance on the following metrics</b>		
<b>Category</b>	<b>Metrics</b>	<b>Scope of Coverage</b>
GHG emissions Scope 1	<ul style="list-style-type: none"> <li>• ... (pg xx),</li> <li>• ... (pg xx)</li> </ul>	ABC Group
GHG emissions Scope 2	<ul style="list-style-type: none"> <li>• ... (pg xx),</li> <li>• ... (pg xx)</li> </ul>	ABC operations at sites 1, 2 and 3

<b>(b) Limited assurance on the following metrics</b>		
<b>Category</b>	<b>Metrics</b>	<b>Scope of Coverage</b>
GHG emissions Scope 3	<ul style="list-style-type: none"> <li>• ... (pg xx),</li> <li>• ... (pg xx)</li> </ul>	ABC Group

*Reasonable Assurance Opinion and Limited Assurance Conclusion*

(a) *Reasonable assurance opinion*

In our opinion [*and subject to the inherent limitations outlined elsewhere in this report*], the metrics set out in section (a) of the Subject Matter paragraph above for the year ended ... are prepared, in all material respects, in accordance with NZ CS 1.

(b) *Limited assurance conclusion*

Based on the procedures we have performed and the evidence we have obtained [*and subject to the inherent limitations outlined elsewhere in this report*], nothing has come to our attention that causes us to believe that the metrics as set out in section (b) of the Subject Matter paragraph above for the year ended ... are not prepared, in all material respects, in accordance with NZ CS 1.

Paragraphs 34 and 35 describe 'Emphasis of Matter' paragraphs but the proposed standard does not describe the requirements for including 'Other Matter' paragraphs in the assurance report, yet the requirements in paragraphs 24 and 25 refer to 'Other Matter' paragraphs.

Illustrative wording for inherent uncertainties in preparing GHG disclosures should be provided in the proposed standard.

Question 6. Do you have any concerns regarding the different terminology that may be used to express the assurance conclusion or opinion? If so, do you have any suggestions to address these concerns?

The ISO uses different terminology to that of the ISAEs, which has the potential to create confusion in the market when users of the assurance report consider these terms and whether they have the same meaning. We recommend that the XRB require the use of uniform terminology and clearly define all terms that are used in the proposed standard to ensure all assurance practitioners, and stakeholders have a common understanding of those terms.

Question 7. Do you support the proposed inclusion of Key Matter, Emphasis of Matter, Inherent Uncertainty and Other Matter paragraphs where appropriate?

Please refer to our responses to questions 1 and 5.

Question 8. Are there any other requirements that you consider should be included in relation to the assurance practitioner's report? If so, please specify.

Please refer to our responses provided to questions 5, 6 and 11.

### **Competence and reliance on work of others**

Question 9. Do you consider the requirements in relation to the assurance practitioners' competence are appropriate? If not, what do you consider should be included in relation to this?

Please refer to our response to question 1.

Question 10. Do you consider the requirements in relation to reliance on the work of others is appropriate? If not, what do you consider should be included in relation to this?

Paragraph 20 contains the main proposed requirement to consider when using the work of an expert. ISA NZ 500 and ISA NZ 620 contain further application material on how to meet the requirements in (a)-(c) depending on the circumstances. The proposed requirement does not distinguish between the assurance

practitioner's expert and management's expert, or under which circumstances the expert is not part of the engagement team.

The phrase 'Rely on the work of an expert' does not adequately describe what the assurance practitioner should do. We recommend rephrasing the requirement to "...intends to use the work of an expert as evidence...".

The terms "auditor's expert" and "management's expert" are defined terms in ISA NZ 500 and ISA NZ 620 that should form part of the definition section of the proposed standard, appropriately adapted for the GHG assurance engagement.

We also recommend that the XRB consider including guidance on the 'use of the work of another practitioner'. For example, how could another practitioner's work on GHG disclosures (performed for another purpose and potentially already completed) be used. This is of particular relevance in the current New Zealand environment.

## **Other comments**

Question 11. Do you have any other comments on the proposed standard? If so, please specify.
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## ***Other information***

The assurance practitioner is required to 'take further action as appropriate' when there are inconsistencies or misstatements of fact in the other information. The proposed standard does not contain any explanation of what the further action might be. There are a number of scenarios and the assurance practitioner's required response to each scenario should be described in the proposed standard.

Examples of what should be included in the proposed standard include: Does the other information or the subject matter contain the 'error'; is the error material; is management prepared to correct the error if material; if not modify the assurance conclusion if the subject matter contained the error or include an Other Matter paragraph if the other information contained the error.

## ***Management commentary about GHG disclosures***

We consider it likely that some entities will provide management commentary on their GHG disclosures. We recommend that the proposed standard provides more requirements and guidance in relation to management commentary and to issues such as 'greenwashing'. Also refer to our response to question 1 on management bias in respect of paragraph 22.



**Exposure Draft**  
**October 2022**  
*Comments due: April 24, 2023*

*International Standard on Auditing*

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## Proposed International Standard on Auditing 500 (Revised)

### Audit Evidence

and

### Proposed Conforming and Consequential Amendments to Other ISAs

**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  
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## REQUEST FOR COMMENTS

This Exposure Draft of proposed ISA 500 (Revised), *Audit Evidence*, was developed and approved by the International Auditing and Assurance Standards Board® (IAASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by April 24, 2023.**

Respondents are asked to submit their comments electronically through the IAASB website, using the "[Submit Comment](#)" link. Please submit comments in both a PDF and Word file. First-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website.

This publication may be downloaded from the IAASB website: [www.iaasb.org](http://www.iaasb.org). The approved text is published in the English language.

# EXPLANATORY MEMORANDUM

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## Introduction

1. This memorandum provides background to, and an explanation of, the Exposure Draft of proposed International Standard on Auditing (ISA) 500 (Revised), *Audit Evidence* (ED-500), which was approved for exposure by the IAASB in September 2022.

### Background

2. Extant ISA 500 was considered as part of the IAASB's project to clarify its International Standards at the end of 2008. In addition, consequential amendments were made to the standard in 2018 as part of the IAASB's project to revise ISA 540<sup>1</sup> (i.e., to include material addressing external information sources, as defined).
3. The IAASB established a working group in January 2019 to identify and explore possible issues related to audit evidence, recognizing the evolution in the business environment and audit practice, including the use of technology by both the entity and the auditor. Based on initial feedback provided by the working group in June 2019, the IAASB was of the view that further information-gathering and targeted outreach activities were necessary to understand:
  - The extent to which the issues identified or other issues (if any) are creating challenges in practice, including the reasons or causes of those issues; and
  - How the issues may be best addressed.
4. In December 2020, the IAASB approved a [project proposal](#) to update ISA 500. Section II of the project proposal provides further background about the project, including the audit evidence-related issues that were identified and an explanation of the information-gathering, targeted outreach and other activities that formed the basis for the project proposal. The project objectives, which are described in Section IV of the project proposal, can be summarized as follows:
  - Clarify the purpose and scope of ISA 500 and explain its relationship with other standards.
  - Develop a principles-based approach to considering and making judgments about information to be used as audit evidence and evaluating whether sufficient appropriate audit evidence has been obtained, recognizing the nature and sources of information in the current business and audit environment.
  - Modernize ISA 500 to be adaptable to the current business and audit environment, while considering the scalability of the standard to a wide variety of circumstances regarding the use of technology by the entity and the auditor, including the use of automated tools and techniques.
  - Emphasize the role of professional skepticism when making judgments about information to be used as audit evidence and evaluating audit evidence obtained.
5. In determining the scope of the project to update ISA 500, the IAASB also reached certain conclusions regarding the following matters that would not be addressed as part of the project to remain focused on addressing the identified public interest issues and emphasizing the nature and role of ISA 500 within the suite of ISAs:

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<sup>1</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

- Certain issues, primarily related to possible enhancements to other ISAs (e.g., ISA 330)<sup>2</sup> and assurance other than audits or reviews of financial statements, will form part of future work plan decisions in accordance with the IAASB's Framework for Activities.<sup>3</sup>
- Regarding technology, the project would not address how to design and perform audit procedures through the use of automated tools and techniques.

## Coordination with IESBA and Other IAASB Task Forces and Consultation Groups

### IESBA

6. In January 2022, Staff of the International Ethics Standards Board for Accountants (IESBA) performed a high-level review of ED-500 to identify any relevant ethical considerations or matters pertaining to audit evidence. Given the introduction of new or enhanced requirements in ED-500 to reinforce the auditor's exercise of professional skepticism, the IESBA Staff recommended that the IAASB consider:
  - The provisions related to an inquiring mind and professional judgment in the IESBA *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code).
  - Whether there may be matters included in the IESBA Exposure Draft [Proposed Technology-related Revisions to the Code](#) that may be relevant to the Task Force's work.
7. In July 2022, IESBA Staff performed a follow-up review of ED-500, noting that their recommendations were satisfactorily addressed. In addition, no significant matters warranting further IESBA coordination were noted.

### IAASB Task Forces and Consultation Groups

8. Since the approval of the project proposal, coordination activities with IAASB Task Forces or Consultation Groups included:
  - Fraud Task Force: Discussions regarding the proposed conforming amendments to ISA 240<sup>4</sup> and to align as closely as possible with the direction of proposed ISA 240 (Revised).
  - Professional Skepticism Consultation Group: Discussions focused on the approach taken in ED-500 on the exercise of professional skepticism and addressing auditor biases.
  - Technology Consultation Group: Discussions about examples in the application material to clarify how the principles of ED-500 may apply when using technology.

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<sup>2</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>3</sup> The IAASB's Framework for Activities sets out a framework for how it undertakes its work, including describing the processes and procedures for selecting and prioritizing specific activities to deliver on its committed actions.

<sup>4</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

# Section 1 Guide for Respondents

The IAASB welcomes comments on all matters addressed in ED-500, but especially those identified in the Request for Comments section. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and make specific suggestions for any proposed changes to wording. Respondents are also free to address only questions relevant to them. When a respondent agrees with proposals in ED-500, it will be helpful for the IAASB to be made aware of this view as support for the IAASB’s proposals cannot always be inferred when not stated.

## Section 2 Significant Matters

### Section 2-A – Public Interest Issues Addressed in ED–500

9. The table below sets out the key public interest issues identified by the IAASB related to audit evidence and how they have been addressed in ED–500.

Key Public Interest Issue	Description of Changes Made to Address Identified Key Public Interest Issues	Relevant Paragraphs in ED-500
<p><b>Responding to changes in the information that is being used by auditors, including the nature and source of the information</b></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"> <li>• The attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose of the audit procedure.</li> <li>• The source of the information and how the source may affect the auditor’s judgments regarding the attributes of relevance and reliability that are applicable in the circumstances.</li> </ul>	<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"> <li>• Clarifying that the requirement builds on, and is incremental to, the overarching requirement to evaluate the relevance and reliability of information intended to be used as audit evidence; and</li> <li>• Focusing the auditor on understanding how management has considered the appropriateness of such information, including any modifications made by management.</li> </ul>	11, A66–A78
<p><b>Modernizing and supporting a principles-based standard that recognizes the evolution in technology</b></p>	<p><i>Adaptability and Scalability</i></p> <p>Reinforcing a principles-based approach that is not prescriptive to the use of technology but enables the auditor to apply the standard in an evolving audit environment with the increasing use of technology. For example, the application material:</p> <ul style="list-style-type: none"> <li>• Clarifies that the auditor may use manual or automated tools and techniques to perform audit procedures to obtain audit evidence;</li> <li>• Explains how the use of automated tools and techniques may affect auditor bias, including automation bias; and</li> <li>• Uses examples, as appropriate, that draw attention to or recognize the use of technology by the entity or by the auditor.</li> </ul>	A3–A4, A17, A22–A23, A27–A29, A32, A41–A42, A61, Appendix: 2, 5, 6, 10



Key Public Interest Issue	Description of Changes Made to Address Identified Key Public Interest Issues	Relevant Paragraphs in ED-500
<b>Fostering the maintenance of professional skepticism when making judgments about information to be used as audit evidence and sufficient appropriate audit evidence</b>	<p><i>Fostering the Appropriate Exercise of Professional Skepticism</i></p> <p>Emphasizing the importance of professional skepticism, including when:</p> <ul style="list-style-type: none"> <li>• Designing and performing audit procedures in a manner that is not biased;</li> <li>• Evaluating the relevance and reliability of information intended to be used as audit evidence; and</li> <li>• Considering all audit evidence obtained, as a basis for concluding whether sufficient appropriate audit evidence has been obtained.</li> </ul>	<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.<sup>5</sup> ISA 200 states that, as the basis for the auditor's opinion, the ISAs require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. To obtain reasonable assurance, the auditor is required to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.<sup>6</sup>
17. ED-500 (paragraph 3) also retains the link to other ISAs that may address specific matters and to the auditor's overall conclusion in ISA 330 about whether sufficient appropriate audit evidence has been obtained. The Appendix to ED-500 includes examples of other ISAs that may address the audit evidence to be obtained for specific matters.

#### **Section 2-C – Technology**

18. The table in paragraph 9 above describes the changes made in ED-500 to address the key public interest issue of revising extant ISA 500 to address the evolution in technology. Modernizing ISA 500 to be adaptable to the current business and audit environment, and to better reflect the digital era, has been a key driver of this project for the IAASB.
19. In developing ED-500, the IAASB has followed a principles-based approach to enable the standard to be applied in an evolving environment with increasing use of technology by both the entity and the auditor. The IAASB has aimed for a balanced approach that will allow ED-500 to remain fit for purpose. ED-500 is therefore not prescriptive with respect to the use of technology, but rather accommodates the use of technology by the auditor or the entity. The application material in ED-500 builds on the principles-based requirements to highlight the use of technology.

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

<sup>6</sup> ISA 200, paragraph 17

## **Section 2-D – Professional Skepticism**

20. Based on its information-gathering activities, the IAASB concluded that ISA 500 could more robustly address the need for professional skepticism when making judgments about information to be used as audit evidence and whether sufficient appropriate audit evidence has been obtained.
21. The table in paragraph 9 above describes the changes made in ED-500 to address the key public interest issue of fostering the exercise of professional skepticism related to judgments about audit evidence. The IAASB added a paragraph to the Introduction of ED-500 (paragraph 4) to further highlight the link to ISA 200 and the emphasis on maintaining professional skepticism in planning and performing the audit, and in critically assessing audit evidence.

## **Section 2-E – Definitions**

### *Audit Evidence*

22. Extant ISA 500 defines audit evidence as information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. As part of the IAASB's information-gathering activities in relation to audit evidence, stakeholders noted that, in referring to "information used by the auditor," the definition implies that the auditor is doing something to or with such information.
23. The IAASB therefore discussed and agreed that the revised definition in ED-500 should reflect that information (i.e., the "input") needs to be subject to audit procedures to become audit evidence (i.e., the "output"). The term "information intended to be used as audit evidence" is used in ED-500 to describe the "input" to which audit procedures are applied, including evaluating the relevance and reliability of the information. See Section 2-G below for a further discussion about the required evaluation of the relevance and reliability of information intended to be used as audit evidence in accordance with paragraph 9 of ED-500. Paragraph A34 of ED-500 provides application material that explains the concept of information intended to be used as audit evidence.
24. The revised definition of audit evidence in ED-500 (paragraph 7(b)) describes audit evidence as information, to which audit procedures have been applied, that the auditor uses to draw conclusions that form the basis for the auditor's opinion and report (emphasis added). The IAASB added the reference to the report based on paragraph A30 of ISA 200, as audit evidence is in fact needed to support the auditor's conclusions in forming an opinion and in preparing and issuing the auditor's report. Other references throughout ED-500, including in the objectives (paragraph 6(a)) are only to the auditor's opinion because, in most cases, such references are in the context of obtaining sufficient appropriate audit evidence to enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.

### *Sufficiency and Appropriateness of Audit Evidence*

25. Regarding the sufficiency of audit evidence, stakeholders in the IAASB's targeted outreach activities noted that the significant increase in sources of information has led to greater uncertainty in auditor judgments about "how much evidence is enough" in the circumstances, and how or whether the concept of persuasiveness of audit evidence may address this uncertainty. Stakeholders broadly agreed that the extant definition of appropriateness of audit evidence is generally appropriate, but acknowledged that more guidance may be needed regarding the relevance and reliability of information intended to be used as audit evidence.

26. In its deliberations, the IAASB expressed concerns about introducing changes to the definitions that may not affect auditor behavior, noting that the concepts of sufficiency and appropriateness are well embedded and not broken, and are fundamental to the ISAs as a whole. Therefore, the IAASB has retained the concepts of appropriateness as the measure of the quality of audit evidence, and sufficiency as the measure of the quantity of audit evidence, in providing support for the conclusions that form the basis for the auditor's opinion (paragraphs 7(a) and 7(d) of ED-500).
27. Application material, some of which is drawn from extant ISA 500, is included in ED-500 to support both definitions. The IAASB noted that the extant ISA 500 definition of appropriateness refers to the relevance and reliability of audit evidence, whereas the focus in ED-500 is on evaluating the relevance and reliability of information intended to be used as audit evidence. The IAASB is of the view that the appropriateness (i.e., the quality) of audit evidence is affected by the relevance and reliability of information intended to be used as audit evidence, as well as the effectiveness of the design of audit procedures applied to the information and the auditor's application of those audit procedures. Paragraph A13 of ED-500 describes this point.

#### *Interrelationship of the Sufficiency, Appropriateness and Persuasiveness of Audit Evidence*

28. The project proposal indicated that the IAASB would explore the relevancy of the notion of the "persuasiveness" of audit evidence in the context of ISA 500, given the auditor's responsibility to obtain more persuasive audit evidence the higher the auditor's assessment of risk in accordance with ISA 330.<sup>7</sup> The IAASB supported introducing the concept of persuasiveness in ED-500 but not a definition of the term. The IAASB added application material (paragraphs A6-A9 of ED-500) to explain the interrelationship of these concepts, including factors that may affect the sufficiency and appropriateness of audit evidence, and therefore its persuasiveness.

#### *Other Definitions*

29. Extant ISA 500 includes a definition of accounting records, although there is no reference to the term in the requirements of the extant standard. However, the term "accounting records" is included in the requirements of other ISAs, including ISA 315 (Revised 2019).<sup>8</sup> Therefore, the IAASB is proposing to add a definition of accounting records to ISA 315 (Revised 2019) as a consequential amendment arising from ED-500.
30. The definition of an external information source (EIS) was introduced into extant ISA 500 as a consequential amendment arising from ISA 540 (Revised). The definition of EIS has been removed in ED-500 because the term is not used in the requirements of ED-500 and is primarily referred to in the application material in other ISAs. However, the IAASB is of the view that a description of an EIS is still necessary in the application material in ED-500 as such description assists the auditor in distinguishing whether information prepared by an external individual or organization that is used by management in preparing the financial statements is an EIS or information prepared by a management's expert (see further explanation in paragraph A48 of ED-500). The IAASB also considered the application material related to EIS in paragraphs A39-A44 of extant ISA 500, noting that some of the concepts were also relevant to information from other sources and are not unique to information from an EIS. In developing ED-500, the IAASB streamlined this application material but retained concepts or guidance related more specifically to an EIS.

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<sup>7</sup> ISA 330, paragraph 7(b)

<sup>8</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph 25(a)(ii)

## **Section 2-F – Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence**

31. Paragraph 6 of extant ISA 500 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. The IAASB discussed whether ISA 500 continues to be the appropriate location for this requirement or whether it would be better placed in another ISA, such as ISA 200.
32. The IAASB is of the view that the requirement should remain in ED-500 (paragraph 8) because ED-500 provides a reference framework for the auditor throughout the audit in making judgments about audit evidence when designing and performing audit procedures, and therefore further strengthens the link between ED-500 and the other ISAs.
33. The IAASB supported the enhancement of paragraph 8 of ED-500 to reinforce the exercise of professional skepticism by requiring auditors to design and perform audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative, or towards excluding audit evidence that may be contradictory (paragraph 8(a)). This wording is consistent with requirements in ISA 315 (Revised 2019)<sup>9</sup> and ISA 540 (Revised).<sup>10</sup> Paragraph A20 of ED-500 was added to explain that designing and performing audit procedures in an unbiased manner relates to all audit procedures and what this involves.
34. The application material to paragraph 8(a) of ED-500 links to ISA 220 (Revised), and indicates that an awareness of unconscious or conscious auditor biases when designing and performing audit procedures may help to mitigate impediments to the exercise of professional skepticism. The guidance includes possible actions the auditor may take to mitigate the risk of automation bias when using automated tools and techniques, while recognizing that there may be circumstances when the use of automated tools and techniques may be more effective or provide more persuasive audit evidence than performing audit procedures manually.

### *Types of Audit Procedures*

35. Extant ISA 500 includes application material describing and distinguishing between the different types of audit procedures that may be performed to obtain audit evidence. New technologies have raised questions about how audit procedures performed using automated tools and techniques fall within the types of audit procedures described in extant ISA 500 and other ISAs.
36. Furthermore, input from the IAASB's outreach activities indicated that the classification of audit procedures by nature and type was creating challenges in practice as the use of new audit tools and techniques may involve a blend of types of procedures, or the types of procedures described in the ISAs may not fully describe the procedure being performed. The IAASB is of the view that it is more important for auditors to focus on the appropriateness of the audit procedures in the circumstances (i.e., whether the audit procedures are appropriately designed to achieve their intended purpose, and have been effectively applied by the auditor) rather than the type of audit procedure (i.e., in which "category" the audit procedure falls).

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<sup>9</sup> ISA 315 (Revised 2019), paragraph 13

<sup>10</sup> ISA 540 (Revised), paragraph 18

37. Accordingly, the IAASB relocated the application material describing the types of audit procedures to the Appendix in ED-500. In doing so, examples were added to modernize the types of audit procedures, including references to technology and the use of automated tools and techniques.

#### *Selecting Items for Testing*

38. Paragraph 10 of extant ISA 500 requires the auditor, when designing tests of controls and tests of details, to determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure. The IAASB discussed whether this requirement may be better placed in ISA 330 as it relates to the design of audit procedures in response to assessed risks. However, the IAASB noted that determining how items will be selected for testing is an integral part of designing audit procedures that are appropriate in the circumstances to provide audit evidence to meet the intended purpose of the procedures. Therefore, the IAASB subsumed paragraph 10 of extant ISA 500 into paragraph 8(b) of ED-500.
39. The IAASB is of the view that the enhanced requirement in paragraph 8(b) of ED-500 is a more robust approach in today's environment because it is principles-based and applies to all audit procedures. The related application material in ED-500 has been revised and modernized to indicate that the auditor may use automated tools and techniques to identify and select items for testing.

#### **Section 2-G – Relevance and Reliability of Information Intended to Be Used as Audit Evidence**

40. Paragraph 7 of extant ISA 500 requires the auditor, when designing and performing audit procedures, to consider the relevance and reliability of the information to be used as audit evidence, including information obtained from an external information source. The requirement in paragraph 9 of extant ISA 500 is focused on information produced by the entity and evaluating whether that information is sufficiently reliable for the auditor's purposes, including obtaining audit evidence about the accuracy and completeness of the information.
41. Given the changes in the nature and number of information sources and the evolution in technology, ED-500 includes a principles-based requirement to evaluate the relevance and reliability of information intended to be used as audit evidence (paragraph 9 of ED-500). In making this evaluation, the auditor considers the source of the information and the attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose of the audit procedures in which such information will be used.
42. The IAASB is of the view that the requirement in paragraph 9 of ED-500 will provide for a robust evaluation of the relevance and reliability of information intended to be used as audit evidence. However, the IAASB cautioned against creating an unnecessary burden on auditors in making this evaluation. The IAASB's intention was to develop a principles-based requirement that is capable of demonstrating the varying degree of work effort needed in the particular circumstances (i.e., is scalable). The reference to "given the intended purpose of the audit procedures" in paragraph 9(b) of ED-500 addresses this scalability by indicating that the auditor's professional judgment about the attributes that are applicable in the circumstances takes into account how that information will be used in designing and performing the audit procedures.
43. Paragraph A35 of ED-500 explains that the auditor's evaluation of relevance and reliability is an iterative process that involves professional judgment. Factors that affect the auditor's evaluation include what information exists that may be used as audit evidence and in what form, and whether such information is available, accessible and understandable. Evaluating the relevance and reliability

of information intended to be used as audit evidence involves performing audit procedures, the nature, timing and extent of which may vary (paragraph A36 of ED-500). The evaluation may be performed concurrently with audit procedures applied to the information and in some cases may be straightforward (paragraph A37 of ED-500). Also, audit evidence obtained from performing other audit procedures in accordance with the ISAs may assist in the auditor's evaluation (paragraph A38 of ED-500).

#### *Sources of Information*

44. Paragraphs A48-A52 of ED-500 describe the various sources of information intended to be used as audit evidence. This application material explains that the source of the information may affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances, and the nature and extent of the auditor's evaluation of the relevance and reliability of the information. The application material further explains that obtaining audit evidence in an unbiased manner may involve obtaining information from multiple sources. However, the auditor is not required to perform an exhaustive search to identify all possible sources of information to be used as audit evidence.

#### *Attributes of Relevance and Reliability*

45. Paragraph A53 of ED-500 explains that the quality of audit evidence depends on the relevance and reliability of the information upon which it is based. Accordingly, the auditor is required to consider the attributes of relevance and reliability of the information that are applicable in the circumstances as part of the auditor's evaluation in accordance with paragraph 9 of ED-500. Whether, and the degree to which, certain attributes are applicable in the circumstances is a matter of professional judgment.
46. Paragraphs A54-A62 of ED-500 describe the attributes of relevance and reliability, including factors that affect the auditor's professional judgment regarding the attributes that are applicable in the circumstances.
47. As described in paragraph 42 above, the IAASB cautioned against creating an unnecessary burden on auditors in evaluating the relevance and reliability of information. In this regard, the IAASB emphasized in its deliberations that all of the attributes of relevance and reliability may not be applicable in the circumstances and that the attributes in ED-500 are not intended to be used as a checklist.
48. The IAASB also discussed concerns about the auditor's documentation of the evaluation of relevance and reliability and the consideration of the attributes that are applicable in the circumstances. Paragraph A40 of ED-500 was added to explain that the requirements in ISA 230<sup>11</sup> about the form, content and extent of audit documentation also apply to the documentation of the auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence. Paragraph A40 further explains that the documentation of audit procedures performed in accordance with other ISAs may include documentation about the auditor's consideration of attributes of relevance and reliability that are applicable in the circumstances. However, ED-500 does not require the auditor to document the consideration of every attribute of relevance and reliability of information.

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<sup>11</sup> ISA 230, *Audit Documentation*

### *Accuracy and Completeness of Information Intended to Be Used as Audit Evidence*

49. Extant ISA 500 (paragraph 9) is a conditional requirement that applies when the auditor is using information produced by the entity. In these circumstances, extant ISA 500 requires the auditor to evaluate whether the information is sufficiently reliable for the auditor's purposes, including, as necessary in the circumstances:
- Obtaining audit evidence about the accuracy and completeness of the information; and
  - Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes.
50. As noted in paragraph 41 above, paragraph 9 of ED-500 is a principles-based requirement to evaluate the relevance and reliability of information intended to be used as audit evidence, irrespective of the source of the information. The IAASB had extensive discussions about this requirement, and had mixed views about whether and how the requirement should address accuracy and completeness of the information, including:
- Whether it is necessary to specifically call out the consideration of certain attributes (i.e., accuracy and completeness) in paragraph 9 of ED-500, given the principles-based nature of the requirement; and
  - Concerns about the robustness of the requirement compared to paragraph 9 of extant ISA 500, noting that accuracy and completeness are generally important considerations, particularly for information generated internally from the entity's information system.
51. Based on its discussions, a majority of the IAASB supported a separate conditional requirement (paragraph 10 of ED-500) for the auditor to obtain audit evidence about the accuracy and completeness of information if such attributes are applicable in the circumstances in accordance with paragraph 9(b). On balance, the IAASB concluded that the separate requirement highlights the importance of considering the accuracy and completeness of information, particularly information generated internally from an entity's information system, and is responsive to inspection findings from audit regulators.
52. The IAASB also developed application material (paragraphs A63-A65 of ED-500) to explain circumstances in which the auditor may consider the attributes of accuracy and completeness to be applicable in the circumstances, and how audit evidence about accuracy and completeness may be obtained.

### *Information Intended to Be Used as Audit Evidence Prepared by a Management's Expert*

53. Paragraph 8 of extant ISA 500 deals with the auditor's requirements if information to be used as audit evidence has been prepared using the work of a management's expert. The revised requirement in ED-500 (paragraph 11 of ED-500) relates to and builds upon the principles-based requirement in paragraph 9 of ED-500 to evaluate the relevance and reliability of information intended to be used as audit evidence, irrespective of the source. Accordingly, paragraph 11 of ED-500 includes a reference to paragraph 9 to clarify that the requirements are related, but incremental, to the required evaluation of relevance and reliability of the information. The conditionality in the extant ISA 500 requirement ("to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes") was considered unnecessary and therefore deleted, given that paragraph 9(b) refers to the intended purpose of the audit procedures.



54. Paragraph 11 of ED-500 also:

- Retains the extant ISA 500 requirement to evaluate the competence, capabilities and objectivity of the management's expert. The IAASB is of the view that the importance of such evaluation is well understood by stakeholders and is in the public interest when management uses information prepared by an expert in the preparation of the financial statements.
- Requires the auditor to obtain an understanding of the work performed by the management's expert. In this regard, the IAASB noted that an understanding of the work performed by the management's expert would include an understanding of the underlying information that has been prepared by the management's expert.
- Adds a requirement for the auditor to obtain an understanding about how the information prepared by that expert has been used by management in the preparation of the financial statements. The requirement in paragraph 8(c) of extant ISA 500 to evaluate the appropriateness of the expert's work as audit evidence for the relevant assertion was deemed redundant because paragraph 8(b) of ED-500 already requires the auditor to design and perform audit procedures that are appropriate in the circumstances to provide audit evidence to meet the intended purpose of the procedures (e.g., to respond to an assessed risk for a relevant assertion).

*Doubts About the Relevance or Reliability of Information Intended to Be Used as Audit Evidence*

55. The IAASB discussed that paragraph 11 of extant ISA 500 deals with two different matters i.e., inconsistencies in audit evidence, and doubts over the reliability of information to be used as audit evidence. Therefore, in developing ED-500, the IAASB created two separate requirements. Paragraph 12 of ED-500 addresses the auditor's required actions if the auditor has doubts about the relevance or reliability of information intended to be used as audit evidence. Paragraph 14 of ED-500 addresses the auditor's required actions if the auditor obtains audit evidence that is inconsistent with other audit evidence, as further explained in paragraph 61 below.

56. The IAASB discussed whether the auditor should be required to attempt to seek additional or alternative information if the auditor has doubts about the relevance or reliability of information intended to be used as audit evidence. However, the IAASB is of the view that there may be circumstances in which the auditor may be able to perform audit procedures to resolve doubts about the relevance or reliability of information intended to be used as audit evidence, as explained in paragraph A81 of ED-500. In other circumstances, the auditor may need to seek alternative or additional information, which may include information from external sources.

**Section 2-H – Evaluating the Audit Evidence Obtained**

57. Paragraph 13 of ED-500 introduces a new "stand back" requirement for the auditor to evaluate audit evidence obtained from the audit procedures performed as a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with ISA 330.<sup>12</sup> This stand back also helps to "close the loop" on the requirement in paragraph 8(b) of ED-500 for the auditor to design and perform audit procedures that are appropriate in the circumstances to provide audit evidence to meet the intended purpose of those procedures. This applies to audit evidence obtained from all audit

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<sup>12</sup> ISA 330, paragraph 26

procedures, including risk assessment procedures, and therefore also serves to reinforce the requirement in paragraph 35 of ISA 315 (Revised 2019).

58. The stand back in paragraph 13 of ED-500 also emphasizes the exercise of professional skepticism by requiring the auditor to consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions in the financial statements.
59. The reference in paragraph 13 of ED-500 to whether audit evidence appears to corroborate or contradict the assertions in the financial statements mirrors the wording in paragraph 26 of ISA 330. The IAASB discussed whether the relationship between ED-500 and ISA 330 might be strengthened by deleting that wording in paragraph 26 of ISA 330 through a conforming amendment. However, on balance, the IAASB concluded that the wording is appropriate in both standards, and should be retained in ISA 330 as it provides an important link to ISA 700 (Revised) when forming an opinion on the financial statements.
60. The IAASB also discussed the level at which the evaluation in paragraph 13 of ED-500 is done. The IAASB noted that this evaluation is intended to be performed at the same level as the auditor's conclusion on whether sufficient appropriate audit evidence has been obtained in accordance with paragraph 26 of ISA 330. ISA 330 requires the nature, timing and extent of further audit procedures to be based on and responsive to the assessed risks of material misstatement at the assertion level. The IAASB added application material (paragraph A85 of ED-500) to explain that the auditor's evaluation required by paragraph 13 of ED-500 is made in the context of the requirements of ISA 330 and therefore is focused on whether the audit evidence obtained meets the intended purpose of the audit procedures performed for relevant assertions for significant classes of transactions, account balances and disclosures.
61. As noted in paragraph 55 above, ED-500 also includes a conditional requirement to address inconsistencies in the audit evidence obtained (paragraph 14 of ED-500). In these circumstances, the auditor is required to take actions as necessary to understand and address the inconsistency and to consider the effect, if any, on other aspects of the audit. The IAASB noted that individual pieces of audit evidence obtained may be consistent among themselves, or certain pieces may be inconsistent with others. After any inconsistencies have been addressed, the audit evidence would then become part of the basis for the auditor's overall conclusion about whether sufficient appropriate audit evidence has been obtained.

## **Section 2-I – Conforming and Consequential Amendments**

62. The IAASB is proposing a number of conforming and consequential amendments arising from ED-500. The proposed changes have been presented in marked text to the relevant paragraphs of the various standards. Only the paragraphs that are being proposed to be amended, or that are needed to provide context for the proposed amendments, are provided. In many cases, the changes relate to aligning the terminology or wording with ED-500.

### *ISA 200*

63. ISA 200<sup>13</sup> and extant ISA 500 both have a definition of audit evidence. The extant ISA 500 definition is included in the IAASB's Glossary of Terms.<sup>14</sup> These definitions have different constructs, which has led to questions about why they are different, whether both are needed, and whether or how they should be aligned.
64. The IAASB discussed whether the definition in ISA 200 should be updated to align with the proposed revised definition of audit evidence in paragraph 7(b) of ED-500, or whether the definition in ISA 200 should be deleted (i.e., have only a single definition of audit evidence in ED-500).
65. Given that ISA 200 is a foundational standard, the IAASB recognized that there may be merit in keeping the definition of audit evidence in both standards. However, on balance, the IAASB supported deleting the definition in ISA 200 and therefore is proposing a consequential amendment to ISA 200 to do so.

### *ISA 315 (Revised 2019)*

66. As described in paragraph 29 above, the IAASB is proposing to add a definition of accounting records to ISA 315 (Revised 2019) as a consequential amendment arising from ED-500.

### *ISA 330*

67. The IAASB noted that paragraph 26 of ISA 330 refers to considering "all relevant audit evidence obtained, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements." In contrast, paragraph 13(b) of ED-500, which is intended to provide a basis for the auditor's overall conclusion in accordance with paragraph 26 of ISA 330, refers to "all audit evidence obtained."
68. The IAASB is of the view that the reference to considering "all audit evidence" in paragraph 13(b) of ED-500 is appropriate. Paragraph 9 of ED-500 requires the auditor to evaluate the relevance and reliability of information intended to be used as audit evidence. By definition, audit evidence is information, to which audit procedures have been applied, that the auditor uses to draw reasonable conclusions that form the basis for the auditor's opinion and report. Accordingly, audit evidence obtained that has been evaluated in accordance with paragraph 13 of ED-500 is relevant (and reliable) (i.e., there is no concept of "irrelevant" audit evidence).
69. Therefore, the IAASB is proposing a conforming amendment to paragraph 26 of ISA 330 to delete the word "relevant" to align with the wording in paragraph 13(b) of ED-500.

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<sup>13</sup> ISA 200, paragraph 13(b)

<sup>14</sup> See digital Handbook of the [IAASB's International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements](#)

## Section 3 Request for Comments

Respondents are asked to comment on the clarity, understandability and practicality of application of the requirements and related application material of ED-500. In this regard, comments will be most helpful if they are identified with specific aspects of ED-500 and include the reasons for any concern about clarity, understandability and practicality of application, along with suggestions for improvement. When a respondent agrees with the proposals in ED-500, it will be helpful for the IAASB to be made aware of this view.

### Overall Questions

1. Is the purpose and scope of ED-500 clear? In this regard:
  - (a) Does ED-500 provide an appropriate principles-based reference framework for auditors when making judgments about audit evidence throughout the audit?
  - (b) Are the relationships to, or linkages with, other ISAs clear and appropriate?
2. What are your views about whether the proposed revisions in ED-500, when considered collectively as explained in paragraph 10 above, will lead to enhanced auditor judgments when obtaining and evaluating audit evidence?
3. What are your views about whether ED-500 has an appropriate balance of requirements and application material (see paragraph 11 above)?
4. Do you agree that ED-500 is appropriately balanced with respect to technology by reinforcing a principles-based approach that is not prescriptive but accommodates the use of technology by the entity and the auditor, including the use of automated tools and techniques?
5. Do the requirements and application material in ED-500 appropriately reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence?

### Specific Questions

6. Do you support the revised definition of audit evidence? In particular, do you agree with the “input-output model” that information can become audit evidence only after audit procedures are applied to it?
7. Does the application material appropriately describe the interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence?
8. Will the requirements and application material in ED-500 support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence?
9. Do you agree with the separate conditional requirement to obtain audit evidence about the accuracy and completeness of information when those attributes are applicable in the circumstances?
10. Do you agree with the new “stand back” requirement for the auditor to evaluate audit evidence obtained from the audit procedures performed as a basis for concluding in accordance with ISA 330 that sufficient appropriate audit evidence has been obtained?
11. Are there any other matters you would like to raise regarding ED-500? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

## **Request for General Comments**

12. The IAASB is also seeking comments on the matters set out below:

- (a) **Translations**—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing ED-500.
- (b) **Effective Date**—Recognizing that ED-500 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.

# PROPOSED INTERNATIONAL STANDARD ON AUDITING 500 (REVISED)

## AUDIT EVIDENCE

(Effective for audits of financial statements for periods  
beginning on or after December 15, 20XX)

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## Introduction

### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to audit evidence when designing and performing audit procedures. Such responsibilities include evaluating the relevance and reliability of information intended to be used as audit evidence and evaluating the audit evidence obtained. (Ref: Para. A1-A4)
2. ISA 200<sup>1</sup> deals with the overall responsibilities of the auditor in conducting an audit of the financial statements. ISA 200 requires the auditor to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.<sup>2</sup> (Ref: Para. A5-A12)
3. This ISA is applicable to all audit evidence obtained during the audit. Other ISAs may address the audit evidence to be obtained for specific matters (e.g., audit evidence related to risk assessment procedures performed in accordance with ISA 315 (Revised 2019)).<sup>3</sup> In addition, ISA 330<sup>4</sup> deals with, among other matters, the auditor's overall responsibility to obtain sufficient appropriate audit evidence and to conclude whether sufficient appropriate audit evidence has been obtained.

### *Professional Judgment and Professional Skepticism*

4. As explained in ISA 200, the ISAs require that the auditor exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit.<sup>5</sup> This ISA further emphasizes maintaining professional skepticism in planning and performing the audit, and in critically assessing audit evidence, by, for example:
  - Designing and performing audit procedures in a manner that is not biased.
  - Evaluating the relevance and reliability of information intended to be used as audit evidence.
  - Considering all audit evidence obtained, whether consistent or inconsistent with other audit evidence and regardless of whether it appears to corroborate or contradict the assertions in the financial statements, as a basis for concluding whether sufficient appropriate audit evidence has been obtained.

### Effective Date

5. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 20XX.

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

<sup>2</sup> ISA 200, paragraph 17

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

<sup>4</sup> ISA 330, *The Auditor's Responses to Assesses Risks*

<sup>5</sup> ISA 200, paragraph 7

## Objectives

6. The objectives of the auditor are to:
  - (a) Design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion, and
  - (b) Evaluate information intended to be used as audit evidence, and the audit evidence obtained, to provide a basis for the auditor to conclude whether sufficient appropriate audit evidence has been obtained.

## Definitions

7. For purposes of the ISAs, the following terms have the meanings attributed below:
  - (a) Appropriateness (of audit evidence) – The measure of the quality of audit evidence in providing support for the conclusions that form the basis for the auditor's opinion. (Ref: Para. A13)
  - (b) Audit evidence – Information, to which audit procedures have been applied, that the auditor uses to draw conclusions that form the basis for the auditor's opinion and report.
  - (c) Management's expert – An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.
  - (d) Sufficiency (of audit evidence) – The measure of the quantity of audit evidence in providing support for the conclusions that form the basis for the auditor's opinion. (Ref: Para. A14)

## Requirements

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

8. For the purpose of obtaining sufficient appropriate audit evidence, the auditor shall design and perform audit procedures: (Ref. Para. A15–A18)
  - (a) In a manner that is not biased towards obtaining audit evidence that may be corroborative, or towards excluding audit evidence that may be contradictory; and (Ref. Para. A19–A23)
  - (b) The nature, timing and extent of which are appropriate in the circumstances to provide audit evidence to meet the intended purpose of those audit procedures. (Ref. Para. A24–A33)

### Information Intended to Be Used as Audit Evidence

9. The auditor shall evaluate the relevance and reliability of information intended to be used as audit evidence. In making this evaluation, the auditor shall consider: (Ref. Para. A34–A47)
  - (a) The source of the information; and (Ref. Para. A48–A52)
  - (b) The attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose of the audit procedures. (Ref. Para. A53–A62)
10. If the auditor considers that the accuracy and completeness attributes are applicable in accordance with paragraph 9(b), the auditor shall obtain audit evidence about the accuracy and completeness of the information. (Ref: Para. A63-A65)



*Information Intended to be Used as Audit Evidence Prepared by a Management's Expert*

11. If information intended to be used as audit evidence has been prepared by a management's expert, as part of the auditor's evaluation in accordance with paragraph 9, the auditor shall: (Ref: Para. A66–A68)
  - (a) Evaluate the competence, capabilities and objectivity of that expert; (Ref. Para. A69–A73)
  - (b) Obtain an understanding of the work performed by that expert; and (Ref. Para. A74–A75)
  - (c) Obtain an understanding about how the information prepared by that expert has been used by management in the preparation of the financial statements, including: (Ref: Para. A76–A78)
    - (i) How management has considered the appropriateness of the information prepared by that expert; and
    - (ii) Modifications made by management to the information prepared by that expert, and the reasons for such modifications.

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

12. If the auditor has doubts about the relevance or reliability of information intended to be used as audit evidence, the auditor shall: (Ref. Para. A79–A80)
  - (a) Determine whether modifications or additions to audit procedures are necessary to resolve the doubts; and (Ref: Para. A81-A82)
  - (b) If the doubts cannot be resolved, consider the effect, if any, on other aspects of the audit, including whether such doubts indicate a risk of material misstatement due to fraud. (Ref: Para. A83)

**Evaluating the Audit Evidence Obtained**

13. As a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with ISA 330,<sup>6</sup> the auditor shall: (Ref. Para. A84–A88)
  - (a) Evaluate whether the audit evidence obtained meets the intended purpose of the audit procedures; and
  - (b) Consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions in the financial statements.
14. If the auditor obtains audit evidence that is inconsistent with other audit evidence, the auditor shall: (Ref. Para. A89-A93)
  - (a) Determine what modifications or additions to audit procedures are necessary to understand and address the inconsistency; and
  - (b) Consider the effect, if any, on other aspects of the audit.

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<sup>6</sup> ISA 330, paragraph 26

## Application and Other Explanatory Material

### Audit Evidence and Audit Procedures (Ref: Para. 1)

- A1. Audit evidence is necessary to support the conclusions that form the basis for the auditor's opinion and report.<sup>7</sup> Audit evidence comprises evidence that supports and corroborates management's assertions and evidence that contradicts such assertions. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. Audit evidence obtained from previous audits may also provide audit evidence for the current audit, provided the auditor has performed audit procedures to evaluate whether the audit evidence from the previous audit remains relevant and reliable for the current audit.
- A2. The auditor obtains audit evidence by designing and performing audit procedures, including:
- Risk assessment procedures performed in accordance with ISA 315 (Revised 2019)<sup>8</sup> or other ISAs that expand on how ISA 315 (Revised 2019) applies to a specific topic;
  - Further audit procedures performed in accordance with ISA 330, or other ISAs that expand on how ISA 330 applies to a specific topic, which comprise:
    - Tests of controls, when required by the ISA or when the auditor has chosen to do so; and
    - Substantive procedures, including tests of details and substantive analytical procedures; or
  - Other audit procedures that are performed to comply with the ISAs.

The Appendix explains the relationship of proposed ISA 500 (Revised) to the other ISAs regarding the responsibilities of the auditor in obtaining audit evidence.

### *Automated Tools and Techniques*

- A3. The auditor may perform audit procedures manually or using automated tools and techniques, individually or in combination with each other, to obtain audit evidence. In some circumstances, due to the form of the underlying information, an automated tool and technique may be more effective or provide more persuasive audit evidence, or the auditor may need to use an automated tool and technique because it may not be possible or practicable to perform an audit procedure manually. For example, an automated tool and technique may be more effective in analyzing, processing, organizing, structuring or presenting large volumes of data or information.
- A4. Other ISAs may:
- Describe circumstances when an audit procedure may be performed more effectively by using an automated tool and technique than manually. For example, ISA 240 explains that the use of automated tools and techniques may enable more extensive testing of digital transactions or account files.<sup>9</sup>

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<sup>7</sup> ISA 200, paragraph A30

<sup>8</sup> ISA 315 (Revised 2019), paragraphs 13–16

<sup>9</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph A38

- Provide examples of the use of automated tools and techniques that may be relevant in applying this ISA. For example, ISA 315 (Revised 2019) explains that automated tools or techniques may also be used to:
  - Perform risk assessment procedures on large volumes of data, including for analysis, recalculations, reperformance or reconciliations.<sup>10</sup>
  - Observe or inspect, in particular assets, for example through the use of remote observation tools (e.g., a drone).<sup>11</sup>

### **Sufficient Appropriate Audit Evidence** (Ref: Para. 2)

A5. The auditor considers all audit evidence obtained during the audit to provide a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with ISA 330.<sup>12</sup> As explained in ISA 330, the auditor's judgment as to what constitutes sufficient appropriate audit evidence is influenced by a number of factors, including the persuasiveness of the audit evidence.<sup>13</sup>

### *Interrelationship of the Sufficiency, Appropriateness and Persuasiveness of Audit Evidence*

A6. The sufficiency and appropriateness of audit evidence are interrelated.<sup>14</sup> Sufficiency and appropriateness together affect the persuasiveness of audit evidence, taking into account the assessed risks of material misstatement and relevant assertions.

A7. Certain ISAs provide requirements, or guidance, about circumstances when more persuasive audit evidence is, or may be, required. For example, in designing further audit procedures, ISA 330 requires the auditor to obtain more persuasive audit evidence the higher the auditor's assessment of risk, and also requires the auditor to obtain more persuasive audit evidence the greater the reliance the auditor places on the operating effectiveness of a control.<sup>15</sup>

A8. The results of audit procedures performed, including whether any instances of fraud or error were identified, may cause the auditor to determine that it is appropriate to revise the risk assessment in accordance with ISA 315 (Revised 2019).<sup>16</sup> A revision to the risk assessment may indicate that more persuasive audit evidence is needed to conclude whether sufficient appropriate audit evidence has been obtained.

A9. Other factors that affect the sufficiency and appropriateness of audit evidence, and therefore its persuasiveness, include the following:

- The information intended to be used as audit evidence, including the auditor's consideration of the attributes of relevance and reliability of the information as explained in paragraphs A48–A49.
- Whether the information is from a single source or may be needed from multiple sources.

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<sup>10</sup> ISA 315 (Revised 2019), paragraph A21

<sup>11</sup> ISA 315 (Revised 2019), paragraph A35

<sup>12</sup> ISA 330, paragraph 26

<sup>13</sup> ISA 330, paragraph A62

<sup>14</sup> ISA 200, paragraph A31

<sup>15</sup> ISA 330, paragraphs 7(b) and 9

<sup>16</sup> ISA 315 (Revised 2019), paragraph 37

- The design and performance of audit procedures, i.e., whether they are appropriate in the circumstances and have been appropriately applied (see paragraphs A20–A21).
- Whether there are inconsistencies between multiple pieces of audit evidence.

*Difficulty in Obtaining, or the Time or Cost to Obtain, Audit Evidence*

- A10. In explaining the inherent limitations of an audit, ISA 200<sup>17</sup> notes that the matter of difficulty, time or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive.
- A11. In some circumstances, there may be a high degree of difficulty, time or cost involved in accessing or understanding information intended to be used as audit evidence. However, the auditor may determine that there is no alternative information that would provide sufficient appropriate audit evidence and that it is therefore necessary to obtain such information despite the difficulty, time or cost involved.
- A12. In circumstances when the auditor determines that it is not practicable to obtain or understand the information intended to be used as audit evidence, the auditor may be unable to obtain sufficient appropriate audit evidence. In addition, management’s unwillingness to respond to an inquiry or a request from the auditor (e.g., management’s refusal to provide a requested representation) may be a limitation on the scope of the audit. ISA 705 (Revised)<sup>18</sup> explains other circumstances when the auditor’s inability to obtain sufficient appropriate audit evidence may be a scope limitation. Under these circumstances, the auditor is required to express a qualified opinion or disclaim the opinion on the financial statements in accordance with ISA 705 (Revised).

**Appropriateness of Audit Evidence** (Ref: Para. 7(a))

- A13. The appropriateness of audit evidence refers to the quality of audit evidence. The quality of audit evidence depends on the relevance and reliability of the information intended to be used as audit evidence as well as the effectiveness of the design of the audit procedures and the auditor’s application of those audit procedures, as explained in paragraphs A24–A26. Information that is more relevant and reliable ordinarily is of a higher quality and, therefore, may provide more persuasive audit evidence. If the audit evidence is more persuasive, the auditor may determine that the audit evidence is sufficient in providing support for the conclusions that form the basis for the auditor’s opinion. Alternatively, when audit evidence is less persuasive, the auditor may determine that additional audit evidence is needed to provide support for the auditor’s conclusions. However, increasing the quantity of audit evidence by performing the same type of audit procedures may not provide more persuasive audit evidence in all circumstances.

**Sufficiency of Audit Evidence** (Ref: Para. 7(d))

- A14. The quantity of audit evidence needed is affected by the auditor’s assessment of the risks of material misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). Additional audit evidence may be obtained by increasing the extent of audit procedures performed, performing

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<sup>17</sup> ISA 200, paragraph A50

<sup>18</sup> ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor’s Report*, paragraphs A8 and A9

different types of audit procedures, or by seeking audit evidence from different sources. Obtaining more audit evidence, however, may not compensate for its poor quality.

**Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence** (Ref: Para. 8)

*The Nature of Audit Procedures*

- A15. As explained in paragraph A2, the auditor obtains audit evidence by designing and performing audit procedures, including risk assessment procedures, further audit procedures, and other audit procedures to comply with the ISAs. The nature of an audit procedure refers to its purpose and its type. For example, ISA 330 explains that the purpose of further audit procedures may be a test of controls or a substantive procedure.<sup>19</sup> As also explained in ISA 330, the nature of the audit procedures is of most importance in responding to the assessed risks.
- A16. The auditor may design and perform one type of audit procedure, or a combination of different types of audit procedures when obtaining audit evidence about, for example, a class of transactions, account balance or disclosure. The Appendix describes some of the types of audit procedures and includes illustrative examples.
- A17. The type of audit procedure may affect the audit evidence obtained for the auditor's purposes.

Examples:

- Inquiry of knowledgeable persons within or outside the entity ordinarily does not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level.
- Observation provides audit evidence about the performance of a procedure or control. However, observation is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the procedure or control is performed.
- When performing risk assessment procedures or further audit procedures, the auditor may use an automated tool to interrogate a large data set of transactions more easily. By doing so, the auditor may obtain a more granular or deeper understanding about the characteristics or composition of the transactions, which may result in more persuasive audit evidence.

- A18. The auditor may design and perform an audit procedure that achieves more than one purpose. For example, ISA 315 (Revised 2019) explains that the auditor may perform substantive procedures or tests of controls in accordance with ISA 330 concurrently with risk assessment procedures, when it is efficient to do so.<sup>20</sup> For an audit procedure to achieve more than one purpose, the auditor complies with the requirements of the relevant ISAs. For example, when an audit procedure serves as both a risk assessment procedure and a further audit procedure concurrently, the auditor is required to comply with the requirements of ISA 315 (Revised 2019) and ISA 330, and any other relevant ISAs

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<sup>19</sup> ISA 330, paragraph A5

<sup>20</sup> ISA 315 (Revised 2019), paragraph A19

(e.g., a topic-specific ISA, such as ISA 540 (Revised))<sup>21</sup> that deal with the design and performance of such audit procedure.

*Designing and Performing Audit Procedures in a Manner That Is Not Biased* (Ref: Para. 8(a))

A19. ISA 220 (Revised)<sup>22</sup> explains that unconscious or conscious auditor biases may affect the engagement team's professional judgments in designing and performing audit procedures, and provides examples of biases that may impede the exercise of professional skepticism. An awareness of such biases when designing and performing audit procedures may help to mitigate impediments to the auditor's exercise of professional skepticism in critically assessing audit evidence and determining whether sufficient appropriate audit evidence has been obtained for the auditor's purposes. Such awareness may also enable the auditor to design and perform audit procedures that seek to avoid:

- Placing more weight on audit evidence that corroborates the assertions in the financial statements than audit evidence that contradicts or casts doubt on such assertions (confirmation bias).
- Using an initial piece of information or audit evidence as an anchor against which subsequent information or audit evidence is assessed (anchoring bias).
- Placing more weight on information that immediately comes to mind or uses information from sources that are more readily available or accessible (availability bias).
- Placing weight or undue reliance on output from automated systems or information in digital format without performing appropriate audit procedures (automation bias). Also see paragraphs A22-A23.

A20. Designing and performing audit procedures in an unbiased manner involves:

- For risk assessment procedures, doing so in a manner that is not biased toward obtaining audit evidence that may corroborate the existence of risks or the auditor's expectations about the risks of material misstatement, or toward excluding audit evidence that may contradict the existence of risks or the auditor's expectations.
- For further audit procedures and other audit procedures in accordance with the ISAs, doing so in a manner that is not biased toward obtaining audit evidence that may corroborate management's assertions or toward excluding audit evidence that may contradict such assertions.

A21. Designing and performing audit procedures to obtain audit evidence in an unbiased manner may involve obtaining information intended to be used as audit evidence from multiple sources within and outside the entity. The need to obtain information from multiple sources may be affected by how persuasive the audit evidence needs to be to provide sufficient appropriate audit evidence to support the conclusions that form the basis for the auditor's opinion.

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<sup>21</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>22</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph A35

## Automation Bias

- A22. Digital Information or information that has been generated by automated systems may give rise to a risk of automation bias, resulting in an overreliance on the relevance and reliability of such information. An awareness of automation bias when evaluating the relevance and reliability of information intended to be used as audit evidence may help the auditor to design and perform audit procedures in a manner that seeks to avoid such bias.
- A23. Paragraphs A3-A4 explain that the use of automated tools and techniques may be more effective or provide more persuasive audit evidence than performing audit procedures manually. However, the use of automated tools and techniques may also give rise to a risk of unconscious biases, including automation bias. Possible actions that the auditor may take to mitigate the risk of automation bias when using automated tools and techniques include:
- Explicitly alerting the engagement team to instances or situations when vulnerability to automation bias may be greater.
  - Emphasizing the importance of the involvement of more experienced members of the engagement team, or engagement team members with specialized skills and knowledge, when necessary, to:
    - Understand the data inputs and processing steps, including calculations and modifications to data, used in the automated tool or technique;
    - Design and perform audit procedures using the automated tool or technique; or
    - Interpret the results from applying the automated tool or technique.
  - Determining whether the auditor's firm permits the use of the automated tool and technique and whether the firm has determined that the automated tool and technique is appropriate for use.<sup>23</sup>

### *Audit Procedures that are Appropriate in the Circumstances (Ref: Para. 8(b))*

- A24. As explained in paragraph A9, the audit procedures designed and performed by the auditor may affect the persuasiveness of audit evidence obtained.

Examples:

- Inspection or external confirmation procedures may provide more persuasive audit evidence than inquiry.
- Audit procedures that are more extensive (e.g., a larger sample size for audit sampling purposes) may provide more persuasive audit evidence.

- A25. ISA 200<sup>24</sup> explains that detection risk is a function of:

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

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<sup>23</sup> International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraphs 32(f) and A100 – A101

<sup>24</sup> ISA 200, paragraphs A44-A45

Audit procedures designed and performed by the auditor are appropriate in the circumstances when the nature, timing and extent of such procedures are designed to be effective in achieving the intended purpose of the audit procedures. An audit procedure may be designed to be effective in achieving a specific purpose, but if the performance or execution of the audit procedure (i.e., its application) is inappropriate, detection risk may not be reduced to an appropriately low level.

A26. ISA 220 (Revised) deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and the related responsibilities of the engagement partner. Such responsibilities address factors that may affect the application of audit procedures, such as whether:

- There was adequate planning;
- The audit procedures were performed by engagement team members with appropriate knowledge and experience to properly perform the procedures;
- The engagement team members appropriately exercised professional skepticism; and
- There was appropriate direction, supervision and review.

#### Selecting Items for Testing in Designing and Performing an Audit Procedure

A27. When the design and performance of an audit procedure includes selecting items for testing, the auditor may use various approaches to identify and select items for testing. Such approaches may involve:

- Selecting all items;
- Selecting specific items; and
- Audit sampling.

The application of any one or a combination of these approaches may be appropriate depending on the circumstances. The auditor may also use automated tools and techniques to identify and select items for testing.

A28. The appropriateness of an approach or technique in selecting items for testing depends on a number of factors, such as:

- The intended purpose of the audit procedure;
- How the audit procedure is designed;
- Whether the auditor is performing the audit procedure manually or using automated tools and techniques;
- The characteristics of the population being tested; and
- The persuasiveness of audit evidence that is needed in the circumstances.

#### Selecting all items

A29. The auditor may determine that it is possible to apply an audit procedure to the entire population of items. If the audit procedure has been designed appropriately, the application of the audit procedure to an entire population may result in more persuasive audit evidence. Applying an audit procedure to an entire population may be appropriate when, for example:



- The population constitutes a small number of large value items;
- There is a significant risk and other means of selecting items do not provide sufficient appropriate audit evidence; or
- Automated tools and techniques can be used to perform the audit procedure.

#### Selecting specific items

A30. The auditor may determine that it is appropriate to select specific items from a population. The judgmental selection of specific items is subject to non-sampling risk. Specific items selected may include:

- *High value items.* The auditor may decide to select specific items within a population because they are of high value.
- *All items over a certain amount.* The auditor may decide to select items whose recorded values exceed a certain amount so that the audit procedure is applied to a large proportion of the population.
- *Key items.* The auditor may decide to select specific items within a population based on other characteristics, for example, items that are suspicious, unusual, particularly risk-prone or that have a history of error.
- *Items to obtain information:* The auditor may examine items to obtain information about matters such as the nature of the entity or the nature of transactions.

A31. While selecting specific items from a population will often be an efficient means of obtaining audit evidence, it does not constitute audit sampling. The results of audit procedures applied to items selected in this way cannot be projected to the entire population; accordingly, selecting specific items from a population does not provide audit evidence concerning the remainder of the population.

A32. The auditor may use automated tools and techniques to identify and select specific items for testing. For example, ISA 315 (Revised 2019) explains that, when automated procedures are used to maintain the general ledger and prepare financial statements, non-standard journal entries may exist only in electronic form and may therefore be more easily identified through the use of automated techniques.<sup>25</sup>

#### Audit sampling

A33. Audit sampling involves the application of audit procedures to less than 100% of items within a population and is designed to enable reasonable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it. As explained in paragraph A31, selecting specific items from a population does not constitute audit sampling. Audit sampling is addressed in ISA 530.<sup>26</sup>

#### Information Intended to Be Used as Audit Evidence (Ref: Paras. 9–12)

A34. In planning and performing an audit, the auditor may obtain information from a variety of sources and in different forms. Such information ordinarily is expected to result in audit evidence to support the conclusions that form the basis for the auditor's opinion and report. However, such information can

<sup>25</sup> ISA 315 (Revised 2019), paragraph A161

<sup>26</sup> ISA 530, *Audit Sampling*

become audit evidence only after audit procedures are applied to it, including evaluating its relevance and reliability. For purposes of this ISA, this information is referred to as “information intended to be used as audit evidence.”

### *Evaluating the Relevance and Reliability of Information Intended to Be Used as Audit Evidence*

- A35. The auditor’s evaluation of the relevance and reliability of information intended to be used as audit evidence is an iterative process that involves professional judgment. Factors that affect the auditor’s evaluation include what information exists that may be used as audit evidence and in what form, and whether such information is available, accessible and understandable, as further described in paragraphs A41-A46.
- A36. Evaluating the relevance and reliability of information intended to be used as audit evidence involves performing audit procedures. The nature, timing and extent of such audit procedures may vary and are influenced by the auditor’s consideration of:
- The source of the information (see paragraphs A47-A51); and
  - The attributes of relevance and reliability of the information that are applicable in the circumstances (see paragraphs A52-A61).
- A37. The evaluation of relevance and reliability may be performed concurrently with the audit procedures applied to the information. For example, when the purpose of the audit procedure is to test the valuation of investments using pricing information from an external source, the auditor also considers the credibility of the source and whether it is free from bias. In some circumstances, the audit procedures to evaluate relevance and reliability may be straightforward (e.g., comparing the interest rate on a loan that is based on the prime rate established by a central bank of the jurisdiction to published information from the central bank). In other circumstances, audit procedures, including tests of controls, may be performed to evaluate the reliability of information (e.g., the accuracy and completeness of information generated internally from the entity’s information system).
- A38. Audit evidence from performing other audit procedures in accordance with the ISAs also may assist the auditor in evaluating the relevance and reliability of information intended to be used as audit evidence.

Examples:

Audit evidence obtained from:

- The auditor’s understanding of the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control obtained in accordance with ISA 315 (Revised 2019).
- Tests of controls over the preparation and maintenance of the information performed in accordance with ISA 330.
- Audit procedures performed when using of the work of an auditor’s expert in accordance with ISA 620.<sup>27</sup>

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<sup>27</sup> ISA 620, *Using the Work of an Auditor’s Expert*

- Audit procedures performed in accordance with ISA 402<sup>28</sup> when a user entity uses the services of one or more service organizations.

- A39. In evaluating the relevance and reliability of information intended to be used as audit evidence, the auditor may identify information that is inconsistent with the audit evidence on which the auditor originally based the identification or assessment of the risks of material misstatement. In these circumstances, ISA 315 (Revised 2019) requires the auditor to revise the identification or assessment of the risks of material misstatement.<sup>29</sup>
- A40. ISA 230<sup>30</sup> provides requirements and guidance about the form, content and extent of audit documentation that also apply to the documentation of the auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence. The documentation of audit procedures performed in accordance with other ISAs may include documentation about the auditor's consideration of attributes of relevance and reliability that are applicable in the circumstances (e.g., the credibility of a particular external information source used in auditing an accounting estimate in accordance with ISA 540 (Revised)). However, this ISA does not require the auditor to document the consideration of every attribute of relevance and reliability of information.

*Form, Availability, Accessibility and Understandability of Information*

- A41. Information intended to be used as audit evidence may come in different forms, including:
- Oral information, for example, obtained through a verbal response to an inquiry.
  - Visual information, for example, obtained through physical or remote observation.
  - Information in written form, for example, obtained through a written confirmation.
  - Digital information, which includes documents in digital form and data stored in an IT system. Such digital information may be manually captured, converted into a digital format, or electronically generated.
- A42. The form, availability, accessibility and understandability of the information intended to be used as audit evidence may affect the design and performance of the audit procedures in which the information will be used and may also affect the auditor's evaluation of the relevance and reliability of the information.

Examples:

- The design of an audit procedure to inspect the physical condition of the entity's inventories may differ based on whether the auditor plans to be physically present at specific locations or plans to obtain audit evidence through alternative means, such as remote observation techniques.
- Information may be available only at certain points or periods in time, or it may be destroyed after a specific period of time. The auditor may need to design and perform the audit procedures at particular points in time or request retention of some information to facilitate

<sup>28</sup> ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

<sup>29</sup> ISA 315 (Revised 2019), paragraph 37

<sup>30</sup> ISA 230, *Audit Documentation*

the performance of audit procedures. For example, the entity may use machine learning technology to predict the recoverability of accounts receivable, which is periodically updated (e.g., for changes in payment history, customer credit scores or economic factors). In this case, the auditor may need to perform the audit procedures close to the financial reporting date when the information generated is current, since performing audit procedures at an earlier or later date may render a different outcome.

- Information in digital form may be available to the auditor on a continuous basis. In such circumstances, the auditor may use automated tools and techniques that are designed to operate on a real time basis to test the information (e.g., information maintained in a distributed ledger).

- A43. Paragraphs A19–A23 explain auditor biases, such as availability bias, that may affect or impede the auditor’s exercise of professional skepticism when forming judgments about audit evidence. Remaining alert for information that may be more suitable for the auditor’s purposes, instead of information that immediately comes to mind or is readily available, may assist the auditor in mitigating the risk of availability bias.
- A44. The auditor may receive information in many forms, ranging from information generated from highly complex automated systems to information manually prepared by management and others within the entity. The auditor may have an expectation of the form in which information intended to be used as audit evidence will be received. Remaining alert for information that is received in a form different from the expected form may assist the auditor in mitigating unconscious biases that may impede the auditor’s exercise of professional skepticism. In addition, receiving information in a form different from that expected may also be relevant to the auditor’s evaluation of the reliability of that information.
- A45. Information intended to be used as audit evidence may exist, but access to such information may be restricted, for example, due to restrictions imposed by law or regulation or the source providing the information, or due to war, civil unrest or outbreaks of disease. In some cases, the auditor may be able to overcome restrictions on access to information. ISA 600 (Revised)<sup>31</sup> provides examples of how restrictions may be overcome for an audit of group financial statements.
- A46. Paragraph A12 explains that the auditor may be unable to obtain sufficient appropriate audit evidence if the auditor determines that it is not practicable to obtain or understand information intended to be used as audit evidence. For example, if the auditor does not have a sufficient basis to evaluate the relevance and reliability of information from an external information source, the auditor may have a limitation on scope if sufficient appropriate audit evidence cannot be obtained through alternative procedures. The auditor’s inability to obtain sufficient appropriate audit evidence requires the auditor to express a qualified opinion or disclaim an opinion on the financial statements in accordance with ISA 705 (Revised).
- A47. In some circumstances, specialized skills or knowledge may be needed to understand or interpret the information intended to be used as audit evidence. Accordingly, the auditor may consider using an auditor’s expert to assist in understanding or interpreting the information if the engagement team does not have the appropriate competence and capabilities to do so. Other resources may also be

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<sup>31</sup> ISA 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph A29

appropriate for such purposes, such as technological or intellectual resources that are available to the auditor, as explained in ISA 220 (Revised).<sup>32</sup>

Examples:

Information where specialized skills or knowledge may be needed to understand or interpret information intended to be used as audit evidence:

- The information may be highly dependent on the interpretation of local tax laws and regulations (e.g., a tax opinion on a structured transaction), and the auditor may need a local tax lawyer or tax accountant to help interpret the information.
- The information may be included in a contract that contains complicated and legal terminology, and the auditor may need a lawyer to help interpret the information.
- The information may have been generated by an IT application that uses a highly complex programming language. The auditor may use an IT programming expert to assist in understanding how the information is generated.
- The information may be in a foreign language and may need to be translated.

*Sources of Information* (Ref. Para. 9(a))

A48. Information intended to be used as audit evidence may come from internal sources or external sources. For example, information may come from:

- The entity's accounting records, management or other sources internal to the entity.
- An external individual or organization that provides information suitable for use by a broad range of users, which the entity uses in preparing the financial statements, or the auditor intends to use as audit evidence. Such sources are referred to as an "external information source" in this ISA. A particular set of information is more likely to be suitable for use by a broad range of users and less likely to be subject to influence by any particular user if the external individual or organization provides it to the public for free, or makes it available to a wide range of users in return for payment of a fee. The auditor's determination of whether the information is suitable for use by a broad range of users, and therefore if it is information from an external information source, is a matter of professional judgment, taking into account the ability of management to influence the external information source.

Example:

Pricing services, governmental organizations, central banks or recognized stock exchanges may provide information such as:

- Prices and pricing related data.
- Macro-economic data, such as historical and forecast unemployment rates and economic growth rates, or census data.
- Credit history data.

<sup>32</sup> ISA 220 (Revised), paragraphs A59–A69.

- Industry specific data, such as an index of reclamation costs for certain extractive industries, or viewership information or ratings used to determine advertising revenue in the entertainment industry.
- Mortality tables used to determine liabilities in the life insurance and pension sectors.

- Independent sources outside of the entity that provide information to the entity, such as the entity's bank, legal counsel, customers or suppliers.
- A management's expert.
- An auditor's expert.
- A service organization.

A49. In some cases, information prepared by an external individual or organization that is used by management in preparing the financial statements is an external information source because it is suitable for use by a broad range of users. In other cases, it is information prepared by a management's expert (see paragraphs A65–A77). An external individual or organization cannot, in respect of any particular set of information, be both an external information source and a management's expert.

A50. The source and form of the information intended to be used as audit evidence may affect the availability, accessibility and understandability of the information intended to be used as audit evidence. The source of the information may also affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances, and the nature and extent of the auditor's evaluation of the relevance and reliability of the information. It may also affect how the auditor responds to matters such as doubts about the reliability of the information, or inconsistencies in audit evidence.

Examples:

- If the source of the information is subject to the influence of management or a related party, the auditor may be concerned about authenticity or management bias in evaluating the reliability of such information.
- If the information comes from a highly reputable external information source, such as a central bank of the jurisdiction, the auditor's work effort in considering the reliability of the information may not be extensive.
- If the information is provided by management, such as information generated internally from the entity's information system, the auditor may need to obtain audit evidence about the accuracy and completeness of the information (see paragraphs A62-A63).

A51. Obtaining audit evidence in an unbiased manner may involve obtaining information from multiple sources. However, the auditor is not required to perform an exhaustive search to identify all possible sources of information to be used as audit evidence. The auditor's understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control

obtained in accordance with ISA 315 (Revised 2019) may assist the auditor in identifying appropriate sources of information.<sup>33</sup>

- A52. In designing and performing a specific audit procedure, the auditor may use information from a combination of sources.

Example:

In performing substantive analytical procedures to test revenue recorded for a real estate entity, the auditor may use information from:

- The entity's accounting records, such as information that relates to the details of the rental properties and their location; and
- An external information source, such as information that relates to average real estate rental prices for the area where the properties are located (e.g., information available on real estate websites).

*Attributes of Relevance and Reliability of Information (Ref: Para. 9(b))*

- A53. As explained in paragraph A13, the quality of audit evidence depends on the relevance and reliability of the information upon which it is based. Accordingly, the auditor is required to consider the attributes of relevance and reliability of the information that are applicable in the circumstances as part of the auditor's evaluation in accordance with paragraph 9. Whether, and the degree to which, certain attributes are applicable in the circumstances is a matter of professional judgment.

Relevance

- A54. The principal attribute of the relevance of information intended to be used as audit evidence deals with the logical connection with, or bearing upon, the purpose of the audit procedure, including, when appropriate, the assertion being tested. The degree to which the information relates to meeting the purpose of the audit procedure may also be a consideration.
- A55. Other factors that may affect the relevance of information intended to be used as audit evidence include:
- The classes of transactions, account balances or disclosures (including relevant assertions) to which the information relates. Information may be relevant to multiple classes of transactions, account balances or disclosures. Some information may be relevant for certain financial statement assertions but not others.

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<sup>33</sup> ISA 315 (Revised 2019), paragraphs 19–26

Examples:

- A summary of accounts receivable collected after the end of the period may be relevant to testing the existence and valuation of accounts receivable, and occurrence and accuracy of revenue, but not necessarily to the completeness of accounts receivable and revenue.
- Inspection of a document, such as a stock, bond or a digital copy of a mortgage, may be relevant to the existence assertion for a financial instrument but may not necessarily provide audit evidence about valuation.

- The period of time to which the information relates.
- The level of detail of the information needed given the intended purpose of the audit procedure.

Example:

Information used by management to monitor the entity's operations (e.g., interim operating results) may be relevant for purposes of risk assessment procedures. On the other hand, information related to key performance indicators used by management may not be precise enough to detect material misstatements at the assertion level and therefore may not be appropriate for use by the auditor in performing further audit procedure.

### Reliability

A56. The reliability of information intended to be used as audit evidence deals with the degree to which the auditor may depend on such information.

<i>Attributes that may be considered by the auditor in considering the degree to which information intended to be used as audit evidence is reliable</i>	
Accuracy	The information is free from error in its reflection of the underlying conditions, events, circumstances, actions or inactions, including reflecting the appropriate time period or point in time attributable to the conditions or events.
Completeness	The information reflects all of the underlying conditions, events, circumstances, actions or inactions.
Authenticity	The source actually generated or provided the information, and was authorized to do so, and the information has not been inappropriately altered.
Bias	The information is free from intentional and unintentional bias in its reflection of the underlying conditions, events, circumstances, actions or inactions.
Credibility	The source has the competence and capability to generate the information to a required standard, and the source can be trusted.



- A57. When evaluating the reliability of information intended to be used as audit evidence in accordance with paragraph 9, the auditor may determine that the attribute of authenticity is applicable in the circumstances. ISA 200 explains that the auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary.<sup>34</sup> ISA 240 deals with circumstances in which the auditor has reason to believe that a document may not be authentic, or may have been modified without that modification having been disclosed to the auditor.<sup>35</sup>
- A58. The reliability of information, in particular the attributes of accuracy, completeness and authenticity, may also be affected by whether the integrity of the information has been maintained through all stages of information processing.

Example:

An entity's information system may include general information technology controls to safeguard and maintain the integrity of the financial information. Based on the auditor's understanding and evaluation of the entity's information system and control activities in accordance with the requirements of ISA 315 (Revised 2019),<sup>36</sup> the auditor may determine that the integrity of the entity's financial information has been maintained through all stages of information processing, including when information is extracted for financial reporting purposes.

*Factors That Affect the Auditor's Professional Judgment Regarding the Attributes of Relevance and Reliability*

- A59. The intended purpose of the audit procedure in which the information will be used affects the auditor's professional judgment about the attributes of relevance and reliability that are applicable in the circumstances.

Examples:

- When the auditor performs risk assessment procedures to understand the nature of the entity's provision for warranties, procedures such as the following may be sufficient to assess the risk of material misstatement:
  - Obtaining or updating the auditor's understanding of the entity and its environment, including the markets for the related products.
  - Determining that there have been no changes in the entity's internal control in this area from the prior period audit.
  - Inspecting a list of inventory returns during the guarantee period and noting that such returns are consistent with the auditor's expectations.
- When the auditor designs and performs further audit procedures that are responsive to the assessed risks of material misstatement of the valuation of the provision for warranties, the auditor's further audit procedures may include procedures to obtain audit evidence about the accuracy and the completeness of the listing of returned goods within the guarantee period.

<sup>34</sup> ISA 200, paragraph A23

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

<sup>36</sup> ISA 315 (Revised 2019), paragraphs 25-26

A60. Other factors that affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances may include:

- The nature and form of the information.
- The controls over the preparation and maintenance of the information.
- How the information has been obtained by the auditor, for example, whether the information was obtained directly or indirectly by the auditor.
- If the information is intended to be used by the auditor in performing further audit procedures, the nature of the assessed risks of material misstatement, including the reasons for the assessment, and the relevant assertions.
- Whether the information appears to corroborate or contradict management's assertions.

Example:

Responses to inquiries with those charged with governance about events or conditions that may cast significant doubt about the entity's ability to continue as a going concern may corroborate or contradict management's assertions about future strategies and business plans. In considering the responses to inquiries of those charged with governance:

- If the responses corroborate management's assertions, the attribute of bias may be more applicable in the circumstances.
- If the responses contradict management's assertions, the attributes of accuracy and completeness may be more applicable in the circumstances.

- The extent of change from prior audits, if applicable, in relation to the information, such as changes in how the information has been prepared and changes in underlying controls.
- The implications of actual, suspected, or alleged fraud identified during the audit.

A61. As explained in paragraph A22, digital information or information that has been generated by automated systems may give rise to a risk of automation bias by the auditor. Therefore, the auditor may need to consider this risk when evaluating the relevance and reliability of such information intended to be used as audit evidence.

A62. When the information intended to be used as audit evidence has been obtained by management from an external information source for use in preparing the financial statements, obtaining an understanding of why management used the source and how management considered the relevance and reliability of the information may help to inform the auditor's evaluation of the relevance and reliability of that information.

*Attributes of Accuracy and Completeness (Ref: Para. 10)*

A63. The source of the information intended to be used as audit evidence may affect the auditor's consideration of whether the attributes of accuracy and completeness are applicable in the circumstances. For example, accuracy and completeness ordinarily will be applicable for information generated internally from the entity's information system. For information obtained from a source

external to the entity, the auditor may be more focused on other attributes of reliability, including the credibility of the source providing the information.

- A64. As explained in paragraph A58, the intended purpose of the audit procedure affects the auditor's professional judgment about the attributes of relevance and reliability that are applicable in the circumstances. The attributes of accuracy and completeness ordinarily will be applicable for information generated internally from the entity's information system used in performing further audit procedures but may not always be applicable when performing risk assessment procedures.

Examples of circumstances in which the auditor may consider the attributes of accuracy and completeness to be applicable in the circumstances may include:

- The price and sales volume data produced by the entity intended to be used by the auditor to develop an expectation about revenue.
- A population of items being tested for a certain characteristic, such as authorization of payment.
- Testing the appropriateness of journal entries and other adjustments.

- A65. Paragraph A37 provides guidance about the audit procedures to evaluate the relevance and reliability of information intended to be used as audit evidence. Such guidance also applies to obtaining audit evidence about the accuracy and completeness attributes when applicable in the circumstances.

*Information Intended to be Used as Audit Evidence Prepared by a Management's Expert (Ref: Para. 11)*

- A66. Management may employ or engage experts in fields other than accounting (e.g., actuarial, valuation, engineering, or climate change and sustainability) to obtain information necessary to prepare the financial statements.

- A67. As explained in paragraph A48, in some cases information prepared by an external individual or organization that is used by management in preparing the financial statements is an external information source, and in other cases it is information prepared by a management's expert. Professional judgment may be needed in determining whether information intended to be used as audit evidence has been prepared by a management's expert, and therefore whether the requirement in paragraph 11 of this ISA applies.

Examples:

- An individual or organization may provide information about real estate prices that is suitable for use by a broad range of users and is therefore determined to be an external information source with respect to that information (e.g., information made generally available about a geographical region). The same individual or organization may also act as a management's expert in providing commissioned valuations for the entity's real estate portfolio specifically tailored for the entity's facts and circumstances.
- Some actuarial organizations publish mortality tables for general use that, when used by an entity, would generally be considered to be information from an external information source. The same actuarial organization may also be a management's expert for different information tailored to the specific circumstances of the entity to help management determine the pension liability for several of the entity's pension plans.

A68. The auditor's evaluation of the information prepared by a management's expert may assist the auditor in complying with other ISAs. For example, when information prepared by a management's expert is used by management for purposes of making an accounting estimate, the auditor's evaluation may assist the auditor in meeting the requirements of ISA 540 (Revised) regarding:

- The selection and application of the methods, significant assumptions and the data used by management in making the accounting estimate; and
- How management selected the point estimate and developed related disclosures about estimation uncertainty.

The Competence, Capabilities and Objectivity of the Management's Expert (Ref: Para. 11(a))

A69. When evaluating the relevance and reliability of information intended to be used as audit evidence, paragraph 9(b) requires the auditor to consider the attributes of relevance and reliability that are applicable in the circumstances. When such information is prepared by a management's expert:

- The competence and capabilities of that expert may inform the auditor's consideration of the attribute of credibility. The credibility of the source providing the information affects the degree to which information intended to be used as audit evidence is reliable.
- The objectivity of that expert may inform the auditor's consideration of the attribute of bias. Bias in the information intended to be used as audit evidence affects the degree to which information is reliable. In some cases, information prepared by a management's expert may be subject to bias, as management may have an influence on the professional judgments of the management's expert.

Competence and capabilities

A70. Competence relates to the nature and level of expertise of the management's expert. Factors that may affect whether the management's expert has the appropriate competence include:

- Whether the expert's work is subject to technical performance standards or other professional or industry requirements, for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation.
- The matter for which the management expert's work will be used, and whether they have the appropriate level of expertise applicable to the matter, including expertise in a particular area of specialty.

Examples:

- An actuary may specialize in health insurance but have limited expertise regarding pension calculations compared to a pension actuary.
  - An actuary that specializes in life insurance may have limited experience with property and casualty insurance.
- The management's expert's competence with respect to relevant accounting requirements, for example, knowledge of assumptions and methods, including models when applicable, that are consistent with the applicable financial reporting framework.

A71. Capabilities relates to the ability of the management's expert to exercise the competence in the circumstances. Factors that may influence capabilities may include geographic location, and the availability of time and resources.

#### Objectivity

A72. A broad range of circumstances may influence the professional judgments of the management's expert, which may threaten the management expert's objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats and intimidation threats. Interests and relationships creating threats may include:

- Financial interests.
- Business and personal relationships.
- Provision of other services.

Safeguards may reduce such threats and may be created either by external structures (e.g., the management's expert's profession, legislation or regulation), or by the management's expert's work environment (e.g., quality management policies or procedures).

A73. Although safeguards cannot eliminate all threats to a management's expert's objectivity, threats such as intimidation threats may be of less significance to a management's expert engaged by the entity than to a management's expert employed by the entity, and the effectiveness of safeguards such as quality management policies or procedures may be greater. The threat to objectivity created by being an employee of the entity will always be present, and therefore a management's expert employed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees of the entity.

#### Obtain an Understanding of the Work Performed by the Management's Expert (Ref: Para. 11(b))

A74. Matters relevant to the auditor's understanding of the work performed by the management's expert may include:

- The relevant field of expertise;
- The nature, scope and objectives of the management's expert's work;
- Whether there are professional or other standards, and regulatory or legal requirements that apply in preparing the information;
- How the information has been prepared by the management's expert, including:
  - The assumptions and methods used by the management's expert, and whether they are generally accepted within that expert's field and appropriate for financial reporting purposes; and
  - The underlying information used by the management's expert; and
- The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence.

A75. The auditor may decide to involve an auditor's expert<sup>37</sup> to assist in understanding the work performed, including the information prepared, by, the management's expert. For example, the auditor may not have sufficient knowledge or expertise in the management expert's field.

Obtain an Understanding of How the Information Prepared by the Management's Expert Has Been Used by Management in the Preparation of the Financial Statements (Ref: Para. 11(c))

A76. Understanding how management has considered the appropriateness of the information prepared by the management's expert may assist the auditor in evaluating the relevance and reliability of the information intended to be used as audit evidence.

Examples:

- If management has implemented controls to understand and evaluate significant assumptions made by the management's expert and test the data used by the management's expert, the auditor's procedures to evaluate the relevance and reliability of the information prepared by the management's expert may take into account the controls implemented by management.
- If management relies on the controls of the management's expert in preparing the information and accepts the information provided by the management's expert without further evaluation or consideration, the auditor's procedures to evaluate the relevance and reliability of the information prepared by the management's expert may be focused on the significant assumptions and data used by the management's expert.

A77. The auditor's understanding of how information prepared by a management's expert has been used by management in the preparation of the financial statements may help the auditor understand whether the expert's findings or conclusions have been appropriately reflected in the financial statements. In some circumstances, management may need to modify the information prepared by the management's expert, such as when the information provided is too general and requires adjustment to reflect the circumstances unique to the entity. Understanding the modifications made by management to the information prepared by the management's expert may assist the auditor in evaluating whether the information is relevant and reliable in accordance with paragraph 9. For example, management's adjustments may give rise to bias, or management may not have the appropriate competence and capabilities to adapt or adjust the information, which may cause the information to be inaccurate, incomplete or lack credibility.

A78. Based on the auditor's understanding of how information prepared by the management's expert has been used by management in the preparation of the financial statements, the auditor may identify a deficiency in internal control. ISA 265<sup>38</sup> deals with the auditor's responsibility to communicate deficiencies in internal control to those charged with governance and management.

*Doubts About the Relevance or Reliability of Information (Ref: Para. 12)*

A79. Paragraph A54 explains that the relevance of information intended to be used as audit evidence may be affected by the period of time to which the information relates. For example, the relevance of such

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<sup>37</sup> ISA 620, paragraph 7

<sup>38</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged With Governance*

information may change based on the passage of time or due to events or conditions, such as the identification of new information. Such circumstances may occur when the auditor identifies information from an alternative or more credible source which negates, or causes doubt about, the relevance of the initial information intended to be used as audit evidence.

A80. Factors or circumstances that may give rise to doubts about the reliability of information intended to be used as audit evidence include:

- An inability to evaluate the attributes that are applicable in the circumstances, such as whether the information is authentic.
- Misstatements identified during the audit.
- Deficiencies in internal control identified by the auditor, particularly when there is a significant deficiency in internal control.
- When audit procedures performed on a population result in a higher rate of deviation than expected.
- When information intended to be used as audit evidence is inconsistent with other information or audit evidence.

A81. The auditor may be able to perform audit procedures to resolve doubts about the relevance or reliability of information intended to be used as audit evidence. For example, if the auditor has doubts about the reliability of the response to a confirmation request, the auditor may be able to resolve such doubts by contacting the confirming party to verify the source and contents of the response.<sup>39</sup> In other circumstances, the auditor may need to seek alternative or additional information, which may include information from external sources.

A82. As explained in ISA 200,<sup>40</sup> in cases of doubt about the reliability of information or indications of possible fraud, the ISAs require the auditor to investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.

A83. ISA 580<sup>41</sup> provides requirements and guidance for circumstances when the auditor has doubt as to the reliability of written representations. Doubts about the reliability of information from management may indicate a risk of fraud. ISA 240 deals with the auditor's responsibilities relating to fraud in an audit of financial statements.

### **Evaluating the Audit Evidence Obtained** (Ref: Para 13)

A84. Audit evidence is obtained from designing and performing audit procedures. ISA 315 (Revised 2019) requires the auditor to evaluate whether the audit evidence obtained from risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement.<sup>42</sup> ISA 330 requires the auditor to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level, and to design and perform further audit procedures whose nature, timing and extent are based on and are responsive

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<sup>39</sup> ISA 505, *External Confirmations*, paragraph A14

<sup>40</sup> ISA 200, paragraph A23

<sup>41</sup> ISA 580, *Written Representations*, paragraphs 16-18

<sup>42</sup> ISA 315 (Revised 2019), paragraph 35

to the assessed risks of material misstatement at the assertion level.<sup>43</sup> As explained in ISA 315 (Revised 2019), risks of material misstatement at the financial statement level may also affect individual assertions, and identifying these financial statement level risks may assist the auditor in assessing risks of material misstatement at the assertion level, and in designing further audit procedures to address the identified risks.<sup>44</sup>

- A85. ISA 330 addresses the auditor's responsibility to conclude whether sufficient appropriate audit evidence has been obtained.<sup>45</sup> The auditor's judgment as to what constitutes sufficient appropriate audit evidence is influenced by, among other factors, the results of audit procedures performed.<sup>46</sup> As explained in paragraph A83, ISA 330 requires the nature, timing and extent of further audit procedures to be based on and responsive to the assessed risks of material misstatement at the assertion level. The auditor's evaluation required by paragraph 13(a) is made in the context of the requirements of ISA 330 and therefore is focused on whether the audit evidence obtained meets the intended purpose of the audit procedures performed for relevant assertions for significant classes of transactions, account balances and disclosures.
- A86. If the auditor has not obtained sufficient appropriate audit evidence related to a relevant assertion about a class of transactions, account balance or disclosure, ISA 330 requires the auditor to attempt to obtain further audit evidence.<sup>47</sup> This may be the case, for example, if the audit evidence obtained does not meet the intended purpose of the audit procedures. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor is required to express a qualified opinion or disclaim an opinion on the financial statements in accordance with ISA 705 (Revised).
- A87. Other ISAs may also address the auditor's evaluation of whether sufficient appropriate audit evidence has been obtained for specific topics, such as ISA 570 (Revised).<sup>48</sup>
- A88. As explained in paragraph A25, an audit procedure may be designed to be effective in achieving an intended purpose, but if the performance or execution of the audit procedure (i.e., its application) is inappropriate, detection risk may not be reduced to an appropriately low level. Paragraph A26 explains how ISA 220 (Revised) addresses the specific responsibilities of the auditor regarding quality management at the engagement level, and the related responsibilities of the engagement partner, which may affect the application of audit procedures. In addition, ISA 220 (Revised)<sup>49</sup> explains that the review of the engagement team's work consists of considering whether, for example:
- The evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion; and
  - The objectives of the audit procedures have been achieved.

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<sup>43</sup> ISA 330, paragraphs 5-6

<sup>44</sup> ISA 315 (Revised 2019), paragraph A194

<sup>45</sup> ISA 330, paragraph 26

<sup>46</sup> ISA 330, paragraph A62

<sup>47</sup> ISA 330, paragraph 27

<sup>48</sup> ISA 570 (Revised), *Going Concern*, paragraph 17

<sup>49</sup> ISA 220 (Revised), paragraph A89



*Inconsistencies in Audit Evidence (Ref: Para. 14)*

- A89. In some cases, the audit evidence obtained may corroborate the assertions in the financial statements (e.g., for a particular account balance), but when considered with other audit evidence, may indicate possible management bias.

Example:

There may be an indication of possible management bias when accounting estimates included in the financial statements are considered to be individually reasonable, but management's point estimates consistently trend toward one end of the auditor's range of reasonable outcomes that provide a more favorable financial reporting outcome for management.

- A90. When audit evidence is inconsistent with other audit evidence, it may indicate that some of the information used as audit evidence is not reliable. This may be the case, for example, when responses to inquiries of management, those charged with governance, internal auditors, or others are inconsistent. Such inconsistencies may therefore call into question the appropriateness of the auditor's evaluation of the relevance and reliability of such information, in accordance with paragraph 9. Paragraph 12 addresses the auditor's responsibilities when the auditor has doubts about the relevance and reliability of information intended to be used as audit evidence. The extent to which the auditor may need to modify or add to the audit procedures to resolve the doubts and the effect on other aspects of the audit may vary.
- A91. When performing an audit procedure, such as a risk assessment procedure or a further audit procedure, the auditor may identify items that are inconsistent with the auditor's expectations or that exhibit characteristics that are unusual for the population. Different terminology may be used to describe these items, for example, exceptions, outliers, notable items, or items of audit interest. These items may indicate a possible misstatement in the financial statements. They may also indicate inconsistencies in audit evidence, particularly when other audit evidence has not identified similar exceptions or outliers, or cast doubt on the reliability of the information. Paragraph 14 applies in such circumstances.
- A92. In considering the effect of inconsistencies in audit evidence on other aspects of the audit, the auditor may consider whether the risk assessment remains appropriate in accordance with ISA 315 (Revised 2019).<sup>50</sup>
- A93. ISA 230 addresses circumstances when the auditor identifies information that is inconsistent with the auditor's final conclusion regarding a significant matter and requires the auditor to document how the auditor addressed the inconsistency.<sup>51</sup>

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<sup>50</sup> ISA 315 (Revised 2019), paragraph 37

<sup>51</sup> ISA 230, paragraph 11

## Appendix

(Ref: Para. A2, A16–A17)

### The Relationship of Proposed ISA 500 (Revised) to the Other ISAs and Examples of Types of Audit Procedures

This appendix explains the relationship of proposed ISA 500 (Revised) to the other ISAs regarding the responsibilities of the auditor in obtaining audit evidence. The appendix also describes some of the types of audit procedures designed and performed by the auditor to obtain audit evidence. Some audit procedures described in this appendix are defined in the ISAs. This appendix is non-exhaustive; other types of procedures may be designed and performed by the auditor.

#### Responsibility to Design and Perform Audit Procedures

1. As explained in paragraph 3, this ISA is applicable to all audit evidence obtained during the audit. Other ISAs may address the audit evidence to be obtained for specific matters, for example:
  - ISA 315 (Revised 2019) deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements.
  - ISA 505<sup>52</sup> deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with ISA 330 and ISA 500.
  - ISA 520<sup>53</sup> deals with the auditor's use of analytical procedures as substantive procedures, and the auditor's responsibility to perform analytical procedures near the end of the audit;
  - ISA 570 (Revised) deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.

#### Types of Audit Procedures

##### *Inspection*

2. Inspection involves an examination (being physically present or using remote observation tools) of an asset or an examination of records or documents, whether internal or external, in paper form, digital form, or other media.

##### Examples:

- To test a control, the auditor may inspect records, using manual or automated tools and techniques, for evidence of authorization.
- The auditor may inspect the terms of revenue contracts with customers using automated tools or techniques, which may extract key information such as pricing and payment terms to use as audit evidence relevant to revenue recognition.

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<sup>52</sup> ISA 505, *External Confirmations*

<sup>53</sup> ISA 520, *Analytical Procedures*

3. Inspection of records and documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production. Some documents represent direct audit evidence of the existence of an asset, for example, a document constituting a financial instrument such as a stock or bond. Inspection of such documents may not necessarily provide audit evidence about ownership or value.
4. Inspection of tangible assets may provide reliable audit evidence with respect to their existence, but not necessarily about the entity's rights and obligations or the valuation of the assets. Inspection of individual inventory items may accompany the observation of inventory counting.

### *Observation*

5. Observation consists of looking at a process or procedure being performed by others. Similar to inspection, observation may involve being physically present or using remote observation tools. Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed. ISA 501 provides further guidance on observation of the counting of inventory.<sup>54</sup>

#### Examples:

- In understanding the entity's system of internal control as part of risk assessment procedures, the auditor may observe control activities of the entity, for example:
  - Physical controls, such as the safeguarding of assets;
  - Management's procedures to monitor or capture the actual time worked of wage employees; or
  - Management may use automated controls to monitor or observe inventory movements, for example, by assigning a unique bar code or quick response code to all inventory items.
- Subject to certain exceptions, ISA 501<sup>55</sup> requires the auditor to attend the physical inventory counting of the client to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. The auditor may perform the required audit procedures by using manual or automated techniques, individually or in combination with each other. Automated techniques may include live video, screensharing or video footage from a drone.
  - As a test of control, the auditor may observe entity personnel performing the controls.
  - As a further substantive procedure, the auditor may observe inventory counting by the entity's personnel through the use of satellite tracking devices.

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<sup>54</sup> ISA 501, *Audit Evidence—Specific Considerations for Selected Items*

<sup>55</sup> ISA 501, paragraph 4

### *Confirmation*

6. An external confirmation requested by the auditor is directed to a third party, who is requested to provide a direct response to the auditor on a particular matter. The third party's (the confirming party) response may be in paper form, or by digital or other media. See ISA 505 for further guidance.

#### Examples:

The auditor may request an external confirmation of:

- Bank accounts and bank facilities with the bank. In some cases, this may be facilitated through third-party web-based and automated platforms.
- Account balances, such as accounts receivable and accounts payable.
- The terms of agreements or transactions an entity has with third parties.
- Whether any modifications have been made to an agreement and, if so, what the relevant details are.
- Whether "side agreements" have been entered into that may influence revenue recognition.

### *Recalculation*

7. Recalculation consists of checking the mathematical accuracy of information.

### *Reperformance*

8. 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).
- Reperform the reconciliation of accounts payable balances at year end, through matching creditor's statements to the transactions in the underlying accounting records.

### *Analytical Procedures*

9. Analytical procedures consist of evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.
10. The auditor may perform analytical procedures for various purposes, including as:
- Risk assessment procedures in accordance with ISA 315 (Revised 2019),<sup>56</sup>

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<sup>56</sup> ISA 315 (Revised 2019), paragraph 14(b)

Example:

In identifying and assessing the risks of material misstatement regarding revenue, the auditor may perform analytical procedures in order to identify transactions that do not meet certain criteria, such as transactions with unauthorized customers, transactions without matching shipping documents or transactions with unusual delivery timeframes. Such transactions may be assessed as having a higher risk of material misstatement. As explained in paragraph A3, the auditor may perform audit procedures manually or use automated tools and techniques, individually or in combination with each other, to perform the analytical procedures.

- Substantive analytical procedures, or analytical procedures performed near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements. See ISA 520 for further guidance.

*Inquiry*

11. Inquiry consists of seeking information of knowledgeable persons within the entity or outside the entity. Inquiry is often used in performing risk assessment procedures and may range from formal written inquiries to informal oral inquiries. When performing further audit procedures, inquiry may provide audit evidence and may produce evidence of a misstatement. However, inquiry alone ordinarily does not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level, nor of the operating effectiveness of controls.
12. Evaluating responses to inquiries is an integral part of the inquiry process. Responses to inquiries may provide the auditor with new information, or with information that either corroborates or is inconsistent with other audit evidence. Responses to inquiries may provide a basis for the auditor to modify or perform additional audit procedures.
13. Although audit evidence obtained through inquiry may need to be supplemented by performing other audit procedures, when making inquiries about management intent, the information available to support management's intent may be limited. In these cases, understanding management's past history of carrying out its stated intentions, management's stated reasons for choosing a particular course of action, and management's ability to pursue a specific course of action may provide additional audit evidence to supplement the audit evidence obtained through inquiry.

Examples:

The auditor may inquire of management about their intent related to a particular matter. The auditor may corroborate management's intent through:

- Inspecting management's past history of carrying out its stated intentions;
- Understanding management's stated reasons for choosing a particular course of action, and inspecting information to corroborate such reasons; and
- Considering management's ability to pursue a specific course of action, based on the auditor's understanding of the entity, the matter to which management's intent relates and other audit evidence.

14. In respect of some matters, the auditor may consider it necessary to obtain written representations from management and, when appropriate, those charged with governance to confirm responses to oral inquiries. See ISA 580 for further guidance.

## CONFORMING AND CONSEQUENTIAL AMENDMENTS ARISING FROM PROPOSED ISA 500 (REVISED) – MARKED FROM EXTANT

### INTERNATIONAL STANDARD ON AUDITING (ISA) 200 – OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH INTERNATIONAL STANDARDS ON AUDITING

#### Definitions

...

13(b). ~~Audit evidence—Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information. For purposes of the ISAs:~~

- ~~(i) Sufficiency of audit evidence is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence.~~
- ~~(ii) Appropriateness of audit evidence is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.~~

...

#### Application and Other Explanatory Material

...

##### Professional Skepticism (Ref: Para. 15)

A20. Professional skepticism includes being alert to, for example:

- Audit evidence that is inconsistent with ~~contradicts~~ other audit evidence obtained.
- Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence.
- Conditions that may indicate possible fraud.
- Circumstances that suggest the need for audit procedures in addition to those required by the ISAs.

...

A22. Professional skepticism is necessary to the critical assessment of audit evidence. This includes questioning inconsistent ~~contradictory~~ audit evidence and the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of audit evidence obtained in the light of the circumstances, for example, in the case where fraud risk factors exist and a single

document, of a nature that is susceptible to fraud, is the sole supporting evidence for a material financial statement amount.

- A23. The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. Nevertheless, the auditor is required to evaluate ~~consider~~ the reliability of information intended to be used as audit evidence.<sup>1</sup> In cases of doubt about the reliability of information or indications of possible fraud (for example, if conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document may have been falsified), the ISAs require that the auditor investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.<sup>2</sup>

...

### **Sufficient Appropriate Audit Evidence and Audit Risk (Ref: Para. 5 and 17)**

#### *Sufficiency and Appropriateness of Audit Evidence*

- A30. Audit evidence is necessary to support the conclusions drawn that form the basis for the auditor's opinion and report. Audit evidence ~~It~~ is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits audit evidence (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit<sup>3</sup>) or through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information intended to ~~that may~~ be used as audit evidence may have been prepared by an expert employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. ~~In addition, in some cases, the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.~~ Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.

...

- A32. The Appropriateness of audit evidence refers to is the measure of the quality of audit evidence. The quality of audit evidence depends on the; that is, its relevance and its reliability of the information intended to be used as audit evidence as well as the effectiveness of the design of the audit procedures and the auditor's application of those audit procedures.<sup>4</sup> ~~in providing support for the conclusions on which the auditor's opinion is based. The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained~~ nature, form and source of information are among the factors that affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances.

...

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<sup>1</sup> ISA 500 (Revised), *Audit Evidence*, paragraphs 7-9

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

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

<sup>4</sup> ISA 500 (Revised), paragraph A13



# ISA 220 (REVISED) – QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS

## Application and Other Explanatory Material

...

### Definitions

*Engagement Team (Ref: Para. 12(d))*

A15. The engagement team may be organized in a variety of ways. For example, engagement team members may be located together or across different geographic locations and may be organized in groups by the activity they are performing. Regardless of how the engagement team is organized, any individual who performs audit procedures<sup>5</sup> on the audit engagement is a member of the engagement team.

A16. The definition of an engagement team focuses on individuals who perform audit procedures on the audit engagement. Audit evidence, which is necessary to support the auditor's opinion and report, is primarily obtained from audit procedures performed during the course of the audit.<sup>6</sup> Audit procedures include ~~comprise~~ risk assessment procedures,<sup>7</sup> and further audit procedures.<sup>8</sup> and other audit procedures that are performed to comply with the ISAs. As explained in ISA 500 (Revised) describes different types, of audit procedures, which may include inspection, observation, confirmation, recalculation, reperformance, analytical procedures and inquiry, often performed in some combination.<sup>9</sup> ~~Other ISAs may also include specific procedures to obtain audit evidence, for example, ISA 520.~~<sup>10</sup>

...

### Leadership Responsibilities for Managing and Achieving Quality on Audits (Ref: Para. 13–15)

...

*Professional Skepticism (Ref: Para. 7)*

...

A34. Impediments to the exercise of professional skepticism at the engagement level may include, but are not limited to:

- ....
- Difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others, which may cause the engagement team to bias the selection of sources of information

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<sup>5</sup> ISA 500 (Revised), *Audit Evidence*, paragraph A24

<sup>6</sup> ISA 200, paragraph A30

<sup>7</sup> ISA 315 (Revised 2019) provides requirements related to risk assessment procedures.

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

<sup>9</sup> ISA 500 (Revised), paragraphs A164–A25, Appendix

<sup>10</sup> ISA 520, *Analytical Procedures*

intended to be used as audit evidence and seek information ~~audit evidence~~ from sources that are more easily accessible.

...

A36. Possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level may include:

- ...
- Communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others from whom information intended to be used as audit evidence may be sought.

## **ISA 240 – THE AUDITOR’S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS**

### **Requirements**

...

#### **Risk Assessment Procedures and Related Activities**

17. When performing risk assessment procedures and related activities to obtain an understanding of the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control, required by ISA 315 (Revised 2019), the auditor shall perform the procedures in paragraphs 18–25 to obtain audit evidence ~~information~~ for use in identifying the risks of material misstatement due to fraud.

...

#### *Evaluation of Fraud Risk Factors*

25. The auditor shall evaluate whether the audit evidence ~~information~~ obtained from the other risk assessment procedures and related activities performed indicates that one or more fraud risk factors are present. While fraud risk factors may not necessarily indicate the existence of fraud, they have often been present in circumstances where frauds have occurred and therefore may indicate risks of material misstatement due to fraud. (Ref: Para. A24–A28)

#### **Evaluation of Audit Evidence (Ref: Para. A50)**

...

37. If the auditor identifies a misstatement, whether material or not, and the auditor has reason to believe that it is or may be the result of fraud and that management (in particular, senior management) is involved, the auditor shall reevaluate the assessment of the risks of material misstatement due to fraud and its resulting impact on the nature, timing and extent of audit procedures to respond to the assessed risks. The auditor shall also consider whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering the reliability of audit evidence previously obtained. (Ref: Para. A53)

...

### **Communication to Management and with Those Charged with Governance**

41. If the auditor has identified a fraud or has obtained audit evidence information that indicates that a fraud may exist, the auditor shall communicate these matters, unless prohibited by law or regulation, on a timely basis with the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref: Para. A61-A62)

...

### **Application and Other Explanatory Material**

...

#### **Risk Assessment Procedures and Related Activities**

...

*Inquiry of Management and Others within the Entity* (Ref: Para. 19)

...

- A18. Management is often in the best position to perpetrate fraud. Accordingly, when evaluating management's responses to inquiries with an attitude of professional skepticism, the auditor may judge it necessary to obtain audit evidence to corroborate responses to inquiries ~~with other information~~.

...

#### **Responses to the Assessed Risks of Material Misstatement Due to Fraud**

...

*Audit Procedures Responsive to Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level* (Ref: Para. 31)

- A38. The auditor's responses to address the assessed risks of material misstatement due to fraud at the assertion level may include changing the nature, timing and extent of audit procedures in the following ways:
- The nature of audit procedures to be performed may need to be changed to obtain audit evidence that is more appropriate reliable and relevant or to obtain additional audit evidence corroborative information. This may affect both the type of audit procedures to be performed and their combination. For example:
    - Physical observation or inspection of certain assets may become more important or the auditor may choose to use automated tools and computer-assisted audit techniques to gather more evidence about data contained in significant accounts or electronic transaction files.
    - The auditor may design procedures to obtain additional audit evidence corroborative information. For example, if the auditor identifies that management is under pressure to meet earnings expectations, there may be a related risk that management is inflating sales by entering into sales agreements that include terms that preclude revenue recognition or by

invoicing sales before delivery. In these circumstances, the auditor may, for example, design external confirmations not only to confirm outstanding amounts, but also to confirm the details of the sales agreements, including date, any rights of return and delivery terms. In addition, the auditor might find it effective to supplement such external confirmations with inquiries of non-financial personnel in the entity regarding any changes in sales agreements and delivery terms.

- ...
- The extent of the procedures applied reflects the assessment of the risks of material misstatement due to fraud. For example, increasing sample sizes or performing analytical procedures at a more detailed level may be appropriate. Also, automated tools and computer-assisted audit techniques may enable more extensive testing of electronic transactions and account files. Such techniques can be used to select sample transactions from key electronic files to sort transactions with specific characteristics, or to test an entire population instead of a sample.

...

#### **Evaluation of Audit Evidence** (Ref: Para. 35-38)

...

#### *Consideration of Identified Misstatements* (Ref: Para. 36–38)

...

A53. The implications of identified fraud depend on the circumstances. For example, an otherwise insignificant fraud may be significant if it involves senior management. In such circumstances, the reliability of audit evidence previously obtained may be called into question, since there may be doubts about the completeness and truthfulness of representations made and about the genuineness of accounting records and documentation. There may also be a possibility of collusion involving employees, management or third parties.

...

## **Appendix 2**

(Ref: Para. A41)

### **Examples of Possible Audit Procedures to Address the Assessed Risks of Material Misstatement Due to Fraud**

...

#### **Consideration at the Assertion Level**

Specific responses to the auditor's assessment of the risks of material misstatement due to fraud will vary depending upon the types or combinations of fraud risk factors or conditions identified, and the classes of transactions, account balances, disclosures and assertions they may affect.

The following are specific examples of responses:

- ...
- Performing audit procedures using automated computer-assisted tools and techniques, such as data mining to test for anomalies in a population.
- Testing the integrity of ~~computer-produced~~ records and transactions generated by automated systems.
- ...

### **Specific Responses—Misstatement Resulting from Fraudulent Financial Reporting**

Examples of responses to the auditor's assessment of the risks of material misstatement due to fraudulent financial reporting are as follows:

#### *Revenue Recognition*

- Performing substantive analytical procedures relating to revenue using disaggregated data, for example, comparing revenue reported by month and by product line or business segment during the current reporting period with comparable prior periods. Automated tools and Computer-assisted audit techniques may be useful in identifying unusual or unexpected revenue relationships or transactions.
- ...

#### *Inventory Quantities*

- ...
- Using automated tools and computer-assisted audit techniques to further test the compilation of the physical inventory counts – for example, sorting by tag number to test tag controls or by item serial number to test the possibility of item omission or duplication.

#### *Management Estimates*

- ...

### **Specific Responses—Misstatements Due to Misappropriation of Assets**

Differing circumstances would necessarily dictate different responses. Ordinarily, the audit response to an assessed risk of material misstatement due to fraud relating to misappropriation of assets will be directed toward certain account balances and classes of transactions. Although some of the audit responses noted in the two categories above may apply in such circumstances, the scope of the work is to be linked to the specific information about the misappropriation risk that has been identified.

Examples of responses to the auditor's assessment of the risk of material misstatements due to misappropriation of assets are as follows:

- ...
- Performing an automated computerized match of the vendor list with a list of employees to identify matches of addresses or phone numbers.
- Performing an automated computerized search of payroll records to identify duplicate addresses, employee identification or taxing authority numbers or bank accounts.

## Appendix 3

(Ref: Para. A50)

### Examples of Circumstances that Indicate the Possibility of Fraud

The following are examples of circumstances that may indicate the possibility that the financial statements may contain a material misstatement resulting from fraud.

...

*Problematic or unusual relationships between the auditor and management, including:*

- ...
- Unwillingness to facilitate auditor access to key electronic files for testing through the use of automated tools and computer-assisted audit techniques.

## ISA 300 – PLANNING AN AUDIT OF FINANCIAL STATEMENTS

### Application and Other Explanatory Material

...

## Appendix

(Ref: Para. 7–8, A8–A11)

### Considerations in Establishing the Overall Audit Strategy

This appendix provides examples of matters the auditor may consider in managing quality at the engagement level. Many of these matters will influence the auditor's overall audit strategy and detailed audit plan. The examples provided cover a broad range of matters applicable to many engagements. While some of the matters referred to below may be required by other ISAs, not all matters are relevant to every audit engagement and the list is not necessarily complete.

#### Characteristics of the Engagement

...

- The effect of information technology on the audit procedures, including the availability of data and the expected use of automated tools and computer-assisted audit techniques.

...

# ISA 315 (REVISED 2019) – IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

## Definitions

12. For purposes of the ISAs, the following terms have the meanings attributed below:

- (a) Accounting records -- The records of initial accounting entries and supporting records, such as payment records, including electronic fund transfers; invoices; contracts; the general and subsidiary ledgers, journal entries and other adjustments to the financial statements that are not reflected in journal entries; and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.

...

## Requirements

### Risk Assessment Procedures and Related Activities

...

#### *Evaluating the Audit Evidence Obtained from the Risk Assessment Procedures*

35. The auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement. If not, the auditor shall perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis. In identifying and assessing the risks of material misstatement, the auditor shall take into account all audit evidence obtained from the risk assessment procedures, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborative or contradictory to the assertions made by management. (Ref: Para. A230–A232)

## Application and Other Explanatory Material

### Risk Assessment Procedures and Related Activities (Ref: Para. 13-18)

...

#### *Sources of Audit Evidence* (Ref: Para. 13)

- A15. Designing and performing risk assessment procedures to obtain audit evidence in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of audit evidence. In addition to information from other sources,<sup>11</sup> sources of information for risk assessment procedures may include:
- Interactions with management, those charged with governance, and other key entity personnel, such as internal auditors.

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<sup>11</sup> See paragraphs A37 and A38

- Certain external parties such as regulators, whether obtained directly or indirectly.
- Publicly available information about the entity, for example entity-issued press releases, materials for analysts or investor group meetings, analysts' reports or information about trading activity.

Regardless of the source of information, the auditor considers the relevance and reliability of the information intended to be used as audit evidence in accordance with ISA 500 (Revised).<sup>12</sup>

...

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

A19. ISA 500 (Revised)<sup>13</sup> explains the types of audit procedures that may be performed in obtaining audit evidence from risk assessment procedures and further audit procedures. The nature, timing and extent of the audit procedures may be affected by the fact that some of the accounting data and other evidence may only be available in digital electronic form or only at certain points in time.<sup>14</sup> The auditor may perform substantive procedures or tests of controls, in accordance with ISA 330, concurrently with risk assessment procedures, when it is efficient to do so. Audit evidence obtained that supports the identification and assessment of risks of material misstatement may also support the detection of misstatements at the assertion level or the evaluation of the operating effectiveness of controls.

...

**Identifying and Assessing the Risks of Material Misstatement** (Ref: Para. 28-37)

...

*Evaluating the Audit Evidence Obtained from the Risk Assessment Procedures* (Ref: Para. 35)

...

The Evaluation of the Audit evidence

A231. Audit evidence from risk assessment procedures comprises both evidence that may information that supports and corroborates, the management's assertions, made by management, or evidence and any information that may contradicts such assertions.<sup>15</sup>

...

**Documentation** (Ref: Para. 38)

...

A238. ISA 230 notes that, among other considerations, although there may be no single way in which the auditor's exercise of professional skepticism is documented, the audit documentation may nevertheless provide evidence of the auditor's exercise of professional skepticism.<sup>16</sup> For example, when the audit evidence obtained from risk assessment procedures includes evidence that both

<sup>12</sup> ISA 500 (Revised), paragraph 97

<sup>13</sup> ISA 500 (Revised), paragraph A16~~14~~-A17 and AppendixA21–A25

<sup>14</sup> ISA 500 (Revised), paragraph A42~~42~~

<sup>15</sup> ISA 500 (Revised), paragraph 8(a)~~A1~~

<sup>16</sup> ISA 230, paragraph A7



corroborates and contradicts the assertions made by management's assertions, the documentation may include how the auditor evaluated that evidence, including the professional judgments made in evaluating whether the audit evidence provides an appropriate basis for the auditor's identification and assessment of the risks of material misstatement. Examples of other requirements in this ISA for which documentation may provide evidence of the exercise of professional skepticism by the auditor include:

- ...
- Paragraph 35, which requires the auditor to take into account all audit evidence obtained from the risk assessment procedures, whether including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate corroborative or contradictory to the assertions made by management, and to evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement; and
- ...

## **ISA 330 – THE AUDITOR'S RESPONSES TO ASSESSED RISKS**

### **Requirements**

...

#### **Evaluating the Sufficiency and Appropriateness of Audit Evidence**

...

26. The auditor shall conclude whether sufficient appropriate audit evidence has been obtained. In forming an opinion, the auditor shall consider all ~~relevant~~ audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements. (Ref: Para. A62)

...

### **Application and Other Explanatory Material**

#### **Overall Responses (Ref: Para. 5)**

...

- A2. The assessment of the risks of material misstatement at the financial statement level, and thereby the auditor's overall responses, is affected by the auditor's understanding of the control environment. An effective control environment may allow the auditor to have more confidence in internal control and the reliability of information intended to be used as audit evidence generated internally within the entity and thus, for example, allow the auditor to conduct some audit procedures at an interim date rather than at the period end. Deficiencies in the control environment, however, have the opposite effect; for example, the auditor may respond to an ineffective control environment by:
- Conducting more audit procedures as of the period end rather than at an interim date.
  - ...

## **Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level**

*The Nature, Timing and Extent of Further Audit Procedures (Ref: Para. 6)*

...

Responding to the Assessed Risks at the Assertion Level (Ref: Para. 7(a))

...

Extent

...

A16. The use of automated tools and computer-assisted audit techniques (CAATs) may enable more extensive testing of digital electronic transactions and account files, which may be useful when the auditor decides to modify the extent of testing, for example, in responding to the risks of material misstatement due to fraud. Such techniques can be used to select sample transactions from key digital electronic files, to sort transactions with specific characteristics, or to test an entire population instead of a sample.

...

Higher Assessments of Risk (Ref: Para 7(b))

A19. When obtaining more persuasive audit evidence because of a higher assessment of risk, the auditor may increase the quantity of the evidence, or obtain evidence that is more appropriate relevant or reliable, for example, by placing more emphasis on obtaining third party evidence or by obtaining corroborating audit evidence from a number of independent sources.

*Tests of Controls*

Designing and Performing Tests of Controls (Ref: Para. 8)

...

Timing of Tests of Controls

...

Controls that have not changed from previous audits (Ref: Para. 14(b))

A39. When there are a number of controls for which the auditor intends to rely on audit evidence obtained in previous audits, testing some of those controls in each audit provides audit evidence corroborating information about the continuing effectiveness of the control environment. This contributes to the auditor's decision about whether it is appropriate to rely on audit evidence obtained in previous audits.

...

Evaluating the Operating Effectiveness of Controls (Ref: Para. 16–17)

...

## Nature and Extent of Substantive Procedures

...

A45. The nature of the risk and assertion is relevant to the design of tests of details. For example, tests of details related to the existence or occurrence assertion may involve selecting from items contained in a financial statement amount and obtaining ~~the relevant~~ audit evidence. On the other hand, tests of details related to the completeness assertion may involve selecting from items that are expected to be included in the relevant financial statement amount and investigating whether they are included.

...

## Considering Whether External Confirmation Procedures Are to Be Performed (Ref: Para. 19)

A48. External confirmation procedures frequently are relevant when addressing assertions associated with account balances and their elements, but need not be restricted to these items. For example, the auditor may request external confirmation of the terms of agreements, contracts, or transactions between an entity and other parties. External confirmation procedures also may be performed to obtain audit evidence about the absence of certain conditions. For example, a request may specifically seek confirmation that no “side agreement” exists that may be relevant to an entity’s revenue cutoff assertion. Other situations where external confirmation procedures may provide ~~relevant~~ audit evidence in responding to assessed risks of material misstatement include:

...

## **ISA 402 – AUDIT CONSIDERATIONS RELATING TO AN ENTITY USING A SERVICE ORGANIZATION**

### **Application and Other Explanatory Material**

...

#### **Responding to the Assessed Risks of Material Misstatement (Ref: Para. 15)**

...

#### *Tests of Controls* (Ref: Para. 16)

...

#### Using a Type 2 Report as Audit Evidence that Controls at the Service Organization Are Operating Effectively (Ref: Para. 17)

...

A32. For certain assertions, the shorter the period covered by a specific test and the longer the time elapsed since the performance of the test, the less relevant audit evidence the test may provide. In comparing the period covered by the type 2 report to the user entity’s financial reporting period, the user auditor may conclude that the type 2 report offers less relevant audit evidence if there is little overlap between the period covered by the type 2 report and the period for which the user auditor intends to rely on the report. When this is the case, a type 2 report covering a preceding or

subsequent period may provide additional audit evidence. In other cases, the user auditor may determine it is necessary to perform, or use another auditor to perform, tests of controls at the service organization in order to obtain sufficient appropriate audit evidence about the operating effectiveness of those controls.

...

## ISA 501 – AUDIT EVIDENCE—SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS

### Application and Other Explanatory Material

...

#### Litigation and Claims

*Completeness of Litigations and Claims* (Ref: Para. 9)

...

A18. In addition to the procedures identified in paragraph 9, other relevant procedures include, for example, using ~~audit evidence information~~ obtained through risk assessment procedures carried out as part of obtaining an understanding of the entity and its environment to assist the auditor to become aware of litigation and claims involving the entity.

## ISA 505 – EXTERNAL CONFIRMATIONS

### Introduction

#### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with the requirements of ISA 330<sup>17</sup> and ISA 500 (Revised).<sup>18</sup> It does not address inquiries regarding litigation and claims, which are dealt with in ISA 501.<sup>19</sup>

#### External Confirmation Procedures to Obtain Audit Evidence

2. ISA 500 (Revised) indicates that the ~~reliability-appropriateness~~ of audit evidence refers to the quality of audit evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained.<sup>20</sup> ~~The quality of audit evidence depends on the relevance and reliability of the information intended to be used as audit evidence as well as the effectiveness~~

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<sup>17</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>18</sup> ISA 500 (Revised), *Audit Evidence*

<sup>19</sup> ISA 501, *Audit Evidence—Specific Considerations for Selected Items*

<sup>20</sup> ~~ISA 500, paragraph A9~~

~~of the design of the audit procedures and the auditor's application of those audit procedures.<sup>21</sup> Depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more appropriate than evidence generated internally by the entity. That ISA also includes the following generalizations applicable to audit evidence:<sup>22</sup>~~

- ~~● — Audit evidence is more reliable when it is obtained from independent sources outside the entity.~~
- ~~● — Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference.~~
- ~~● — Audit evidence is more reliable when it exists in documentary form, whether paper, electronic or other medium.~~

~~Accordingly, depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more reliable than evidence generated internally by the entity. This ISA is intended to assist the auditor in designing and performing external confirmation procedures to obtain relevant and reliable audit evidence.~~

3. Other ISAs recognize the importance of external confirmations as audit evidence, for example:
- ...
  - ISA 240 indicates that the auditor may design confirmation requests to obtain audit evidence ~~additional corroborative information~~ as a response to address the assessed risks of material misstatement due to fraud at the assertion level.<sup>23</sup>
  - ISA 500 (Revised) indicates that corroborating information obtained from a source independent of the entity, such as external confirmations, may increase the assurance the auditor obtains from evidence existing within the accounting records or from representations made by management.<sup>24</sup>

...

## Requirements

...

### Evaluating the Results of the External Confirmation Procedures ~~Evidence Obtained~~

16. The auditor shall evaluate ~~whether~~ the results of the external confirmation procedures ~~provide relevant and reliable audit evidence, or~~ determine whether further audit evidence is necessary. (Ref: Para A24–A25)

## Application and Other Explanatory Material

...

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<sup>21</sup> ISA 500 (Revised), paragraph A13

~~<sup>22</sup> ISA 500, paragraph A5~~

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

<sup>24</sup> ISA 500 (Revised), paragraphs A24A12–A13

## Results of the External Confirmation Procedures

*Reliability of Responses to Confirmation Requests (Ref: Para. 10)*

A11. ISA 500 (Revised) indicates that the source of information may affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances, and the nature and extent of the auditor's evaluation of the relevance and reliability of the information even when audit evidence is obtained from sources external to the entity, circumstances may exist that affect its reliability.<sup>25</sup> All responses carry some risk of interception, alteration or fraud. Such risk exists regardless of whether a response is obtained in paper form, or by electronic or other medium. Factors that may indicate doubts about the reliability of a response include that it:

- Was received by the auditor indirectly; or
- Appeared not to come from the originally intended confirming party.

...

A14. The auditor is required by ISA 500 (Revised) to determine whether ~~to modify~~ modifications or additions to audit procedures are necessary to resolve doubts ~~over~~ about the relevance or reliability of information intended to be used as audit evidence.<sup>26</sup> The auditor may choose to verify the source and contents of a response to a confirmation request by contacting the confirming party. For example, when a confirming party responds by electronic mail, the auditor may telephone the confirming party to determine whether the confirming party did, in fact, send the response. When a response has been returned to the auditor indirectly (for example, because the confirming party incorrectly addressed it to the entity rather than to the auditor), the auditor may request the confirming party to respond in writing directly to the auditor.

...

## Evaluating the Results of Individual External Confirmation Procedures Evidence Obtained (Ref: Para. 16)

A24. When evaluating the results of individual external confirmation requests, the auditor may categorize such results as follows:

- (a) A response by the appropriate confirming party indicating agreement with the information provided in the confirmation request, or providing requested information without exception;
- (b) A response deemed unreliable;
- (c) A non-response; or
- (d) A response indicating an exception.

...

.....

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<sup>25</sup> ISA 500 (Revised), paragraph A5035

<sup>26</sup> ISA 500 (Revised), paragraph 1244

## ISA 520 – ANALYTICAL PROCEDURES

### Application and Other Explanatory Material

...

#### Substantive Analytical Procedures

...

##### *The Reliability of the Data* (Ref: Para. 5(b))

A12. The reliability of data is influenced by the auditor's consideration of its source and the attributes of reliability that are applicable in nature and is dependent on the circumstances under which it is obtained.<sup>27</sup> Accordingly, the following are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures:

- (a) Source of the information ~~available~~. For example, information may be less susceptible to management bias and more reliable when it is obtained from independent sources outside the entity;<sup>28</sup>
- (b) Comparability of the information ~~available~~. For example, broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialized products;
- (c) Nature and relevance of the information ~~available~~. For example, whether budgets have been established as results to be expected rather than as goals to be achieved; and
- (d) Controls over the preparation of the information that are designed to ensure its completeness, accuracy and validity. For example, controls over the preparation, review and maintenance of budgets.

A13. ISA 500 (Revised) establishes requirements and provides guidance for evaluating whether the information intended to be used as audit evidence is relevant and reliable.<sup>29</sup> The auditor may consider testing the operating effectiveness of controls, if any, over the entity's preparation of information used by the auditor in performing substantive analytical procedures in response to assessed risks. When such controls are effective, the auditor generally has greater confidence in the reliability of the information and, therefore, in the results of analytical procedures. The operating effectiveness of controls over non-financial information may often be tested in conjunction with other tests of controls. For example, in establishing controls over the processing of sales invoices, an entity may include controls over the recording of unit sales. In these circumstances, the auditor may test the operating effectiveness of controls over the recording of unit sales in conjunction with tests of the operating effectiveness of controls over the processing of sales invoices. Alternatively, the auditor may consider whether the information was subjected to audit procedures testing. ~~ISA 500 establishes requirements~~

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<sup>27</sup> ISA 500 (Revised), *Audit Evidence*, paragraph A50

<sup>28</sup> ISA 500, *Audit Evidence*, paragraph A35

<sup>29</sup> ISA 500 (Revised), paragraph 9

~~and provides guidance in determining the audit procedures to be performed on the information to be used as audit evidence to be used for substantive analytical procedures.~~<sup>30</sup>

...

#### *Evaluation Whether the Expectation Is Sufficiently Precise (Ref: Para. 5(c))*

A15. Matters relevant to the auditor's evaluation of whether the expectation can be developed sufficiently precisely to identify a misstatement that, when aggregated with other misstatements, may cause the financial statements to be materially misstated, include:

...

- The availability of ~~the~~ information, both financial and non-financial. For example, the auditor may consider whether financial information, such as budgets or forecasts, and non-financial information, such as the number of units produced or sold, is available to design substantive analytical procedures. If the information is available, the auditor is required to evaluate ~~may also consider~~ the reliability of the information as discussed in paragraphs A12–A13 above.

## **ISA 530 – AUDIT SAMPLING**

### **Introduction**

#### **Scope of this ISA**

...

2. This ISA complements ISA 500 (Revised),<sup>31</sup> which deals with the auditor's responsibility to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. ISA 500 (Revised) provides guidance on the means available to the auditor for selecting items for testing, of which audit sampling is one means.

### **Application and Other Explanatory Material**

...

#### **Sample Design, Size, and Selection of Items for Testing**

##### *Sample Design (Ref: Para. 6)*

...

A5. When designing an audit sample, the auditor's consideration includes the specific purpose to be achieved and the combination of audit procedures that is likely to best achieve that purpose. Consideration of the nature of the audit evidence sought and possible deviation or misstatement conditions or other characteristics relating to that audit evidence will assist the auditor in defining what constitutes a deviation or misstatement and what population to use for sampling. In fulfilling the

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<sup>30</sup> ISA 500, paragraph 10

<sup>31</sup> ISA 500 (Revised), *Audit Evidence*



requirements of paragraphs 9 and 10 of ISA 500 (Revised), when performing audit sampling, the auditor performs audit procedures to obtain evidence that the population from which the audit sample is drawn is complete.

...

## Appendix 4

(Ref: Para. A13)

### Sample Selection Methods

There are many methods of selecting samples. The principal methods are as follows:

...

(e) Block selection ...

The application of any one or a combination of the methods in paragraphs (a) to (e) may be appropriate depending on the circumstances. The auditor may also use automated tools and techniques to identify and select items for testing.

## ISA 540 (REVISED) – AUDITING ACCOUNTING ESTIMATES AND RELATED DISCLOSURES

### Introduction

#### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to accounting estimates and related disclosures in an audit of financial *statements*. Specifically, it includes requirements and guidance that refer to, or expand on, how ISA 315 (Revised 2019),<sup>32</sup> ISA 330,<sup>33</sup> ISA 450,<sup>34</sup> ISA 500 (Revised)<sup>35</sup> and other relevant ISAs are to be applied in relation to accounting estimates and related disclosures. It also includes requirements and guidance on the evaluation of misstatements of accounting estimates and related disclosures, and indicators of possible management bias.

...

### Requirements

...

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

<sup>33</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>34</sup> ISA 450, *Evaluation of Misstatements Identified during the Audit*

<sup>35</sup> ISA 500 (Revised), *Audit Evidence*

## Responses to the Assessed Risks of Material Misstatement

...

### *Other Considerations Relating to Audit Evidence*

30. In obtaining audit evidence regarding the risks of material misstatement relating to accounting estimates, irrespective of the sources of information to be used as audit evidence, the auditor shall comply with the relevant requirements in ISA 500 (Revised).

When using the work of a management's expert, the requirements in paragraphs 21–29 of this ISA may assist the auditor in evaluating ~~the appropriateness of the expert's work as audit evidence for a relevant assertion~~ in accordance with paragraph ~~8(c)~~ 11 of ISA 500 (Revised). ~~In evaluating the work of the management's expert, the nature, timing and extent of the further audit procedures are affected by the auditor's evaluation of the expert's competence, capabilities and objectivity, the auditor's understanding of the nature of the work performed by the expert, and the auditor's familiarity with the expert's field of expertise.~~ (Ref: Para. A126–A132)

...

### **Overall Evaluation Based on Audit Procedures Performed**

33. In applying ISA 330 to accounting estimates,<sup>36</sup> the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether: (Ref: Para A137–A138)
- (a) The assessments of the risks of material misstatement at the assertion level remain appropriate, including when indicators of possible management bias have been identified;
  - (b) Management's decisions relating to the recognition, measurement, presentation and disclosure of these accounting estimates in the financial statements are in accordance with the applicable financial reporting framework; and
  - (c) Sufficient appropriate audit evidence has been obtained.
34. In making the evaluation required by paragraph 33(c), the auditor shall take into account all ~~relevant~~ audit evidence obtained, ~~whether~~ including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborative or contradictory the assertions in the financial statements.<sup>37</sup> If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall evaluate the implications for the audit or the auditor's opinion on the financial statements in accordance with ISA 705 (Revised).<sup>38</sup>

...

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<sup>36</sup> ISA 330, paragraphs 25–26

<sup>37</sup> ISA 500 (Revised), paragraph 13-14

<sup>38</sup> ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

## Application and Other Explanatory Material

...

### Responses to the Assessed Risks of Material Misstatement

*The Auditor's Further Audit Procedures* (Ref: Para. 18)

...

Obtaining Relevant Audit Evidence Whether Corroborative or Contradictory

A82. Audit evidence comprises evidence ~~both information~~ that supports and corroborates management's assertions, and evidence ~~any information~~ that contradicts such assertions.<sup>39</sup> Obtaining audit evidence in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of audit evidence.

...

*Testing How Management Made the Accounting Estimate* (Ref. Para. 22)

...

Significant Assumptions (Ref: Para. 24)

...

Relevance and reliability of the data (Ref: Para. 25(c))

A107. ~~When using information produced by the entity, ISA 500 (Revised) requires the auditor to evaluate the relevance and reliability of whether the information intended to be used as audit evidence is sufficiently relevant and reliable for the auditor's purposes, taking into consideration the source of the information and the attributes of relevance and reliability that are applicable in the circumstances. If the auditor considers that including as necessary in the circumstances, to obtain audit evidence about the accuracy and completeness attributes are applicable in the circumstances, ISA 500 (Revised) also requires the auditor to obtain audit evidence about the accuracy and completeness of the information and evaluating whether the information is sufficiently precise and detailed for the auditor's purposes.~~<sup>40</sup>

...

*Other Considerations Relating to Audit Evidence* (Ref: Para. 30)

A126. Information intended to be used as audit evidence, regarding risks of material misstatement relating to accounting estimates, may have been produced by the entity, prepared using the work of a management's expert, or provided by an external information source.

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<sup>39</sup> ISA 500 (Revised), paragraph A15

<sup>40</sup> ISA 500 (Revised), paragraphs 9-10

## External Information Sources

A127. As explained in ISA 500 (Revised),<sup>41</sup> the source of the information intended to be used as audit evidence may affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances, and the nature and extent of the auditor's evaluation of the relevance and reliability of the information ~~the reliability of information from an external information source is influenced by its source, its nature, and the circumstances under which it is obtained. Consequently, the nature and extent of the auditor's further audit procedures to consider the reliability of the information used in making an accounting estimate may vary depending on the nature of these factors.~~ For example:

- ...
- When information obtained from an external information source has been developed by that source using its own model(s). ~~Paragraph A43 of ISA 500 provides relevant guidance.~~

...

A129. When information intended to be used as audit evidence is ~~used as audit evidence,~~ from an external information source is used as audit evidence, a relevant consideration for the auditor may be whether information can be obtained, or whether the information is sufficiently detailed, to understand the methods, assumptions and other data used by the external information source. This may be limited in some respects and consequently influence the auditor's consideration of the nature, timing and extent of procedures to perform. For example, pricing services often provide information about their methods and assumptions by asset class rather than individual securities. Brokers often provide only limited information about their inputs and assumptions when providing broker indicative quotes for individual securities. Paragraph ~~A44~~A46 of ISA 500 (Revised) provides guidance ~~with respect to restrictions placed by the~~ for circumstances in which the auditor may not have a sufficient basis to evaluate the relevance and reliability of information from an external information source ~~on the provision of supporting information.~~

## Management's Expert

...

A131. If the work of a management's expert involves the use of methods or sources of data relating to accounting estimates, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in the financial statements, the requirements in paragraphs 21–29 of this ISA may assist the auditor in applying paragraph 118(e) of ISA 500 (Revised).

...

## Documentation (Ref: Para. 39)

...

A152. Paragraph A7 of ISA 230 notes that, although there may be no single way in which the auditor's exercise of professional skepticism is documented, the audit documentation may nevertheless provide evidence of the auditor's exercise of professional skepticism. For example, in relation to

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<sup>41</sup> ISA 500 (Revised), Paragraph A5035

accounting estimates, when the audit evidence obtained includes evidence that both corroborates and contradicts management's assertions, the documentation may include how the auditor evaluated that evidence, including the professional judgments made in forming a conclusion as to whether sufficient the sufficiency and appropriateness of the audit evidence has been obtained. Examples of other requirements in this ISA for which documentation may provide evidence of the exercise of professional skepticism by the auditor include:

...

- Paragraph 18, which requires further audit procedures to be designed and performed to obtain sufficient appropriate evidence in a manner that is not biased toward obtaining audit evidence that may ~~be corroborative~~ corroborate, or towards excluding audit evidence that may ~~be contradictory~~, assertions made by management;

...

- Paragraph 34, which addresses the auditor's consideration of all ~~relevant~~ audit evidence obtained, whether including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborative or contradictory the assertions in the financial statements.

## ISA 550 – RELATED PARTIES

### Application and Other Explanatory Material

...

#### **Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions** (Ref: Para. 20)

...

*Assertions That Related Party Transactions Were Conducted on Terms Equivalent to Those Prevailing in an Arm's Length Transaction* (Ref: Para. 24)

...

- A44. Evaluating management's support for this assertion may involve one or more of the following:
- Considering the appropriateness of management's process for supporting the assertion.
  - Verifying the source of the internal or external data supporting the assertion, and evaluating the relevance and reliability of the data, including obtaining audit evidence about its testing the data to determine their accuracy, and completeness and relevance.
  - Evaluating the reasonableness of any significant assumptions on which the assertion is based.

## ISA 570 (REVISED) – GOING CONCERN

...

### Requirements

...

#### Additional Audit Procedures When Events or Conditions Are Identified

16. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include: (Ref: Para. A16)

...

- (c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions: (Ref: Para. A18–A19)
  - (i) Evaluating the relevance and reliability of the underlying data generated to prepare the forecast; and
  - (ii) Determining whether there is adequate support for the assumptions underlying the forecast.

## ISA 580 – WRITTEN REPRESENTATIONS

### Introduction

...

#### Written Representations as Audit Evidence

3. Audit evidence is ~~the information, to which audit procedures have been applied, that the auditor uses used by the auditor~~ in arriving at the conclusions that form the basis for on which the auditor's opinion and report is based.<sup>42</sup> Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements. Accordingly, similar to responses to inquiries, written representations are audit evidence. (Ref: Para. A1)

...

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<sup>42</sup> ISA 500 (Revised), *Audit Evidence*, paragraph 7(b)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.<sup>43</sup>

...

## Requirements

...

### Using Internal Auditors to Provide Direct Assistance

33. ...
34. The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with ISA 220 (Revised).<sup>44</sup> In so doing:
  - (a) The nature, timing and extent of direction, supervision, and review shall recognize that the internal auditors are not independent of the entity and be responsive to the outcome of the evaluation of the factors in paragraph 29 of this ISA; and
  - (b) The review procedures shall include the external auditor checking back to the underlying information ~~audit evidence~~ for some of the work performed by the internal auditors.

The direction, supervision and review by the external auditor of the work performed by the internal auditors shall be sufficient in order for the external auditor to determine that the internal auditors have obtained sufficient appropriate audit evidence to support the conclusions based on that work. (Ref: Para. A40–A41)

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<sup>43</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>44</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

## ISA 620 – USING THE WORK OF AN AUDITOR’S EXPERT

### Introduction

#### Scope of this ISA

...

2. This ISA does not deal with:

- (a) Situations where the engagement team includes a member, or consults an individual or organization, with expertise in a specialized area of accounting or auditing, which are dealt with in ISA 220 (Revised);<sup>45</sup> or
- (b) The auditor’s use of the work of an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements (a management’s expert), which is dealt with in ISA 500 (Revised).<sup>46</sup>

...

### Application and Other Explanatory Material

...

#### Determining the Need for an Auditor’s Expert (Ref: Para. 7)

...

A8. In other cases, however, the auditor may determine that it is necessary, or may choose, to use an auditor’s expert to assist in obtaining sufficient appropriate audit evidence. Considerations when deciding whether to use an auditor’s expert may include:

- Whether management has used a management’s expert in preparing the financial statements (see paragraph A9).
- The nature and significance of the matter, including its complexity.
- The risks of material misstatement in the matter.
- The expected nature of procedures to respond to identified risks, including: the auditor’s knowledge of and experience with the work of experts in relation to such matters; and the availability of alternative sources of information intended to be used as audit evidence.

A9. When management has used a management’s expert in preparing the financial statements, the auditor’s decision on whether to use an auditor’s expert may also be influenced by such factors as:

- The nature, scope and objectives of the management’s expert’s work.
- Whether the management’s expert is employed by the entity, or is a party engaged by it to provide relevant services.

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

<sup>46</sup> ISA 500 (Revised), *Audit Evidence*, paragraphs A66–A78A45–A59



- The extent to which management can exercise control or influence over the work of the management's expert.
- The management's expert's competence and capabilities.
- Whether the management's expert is subject to technical performance standards or other professional or industry requirements
- Any controls within the entity over the management's expert's work.

ISA 500 (Revised)<sup>47</sup> includes requirements and guidance regarding the evaluation ~~effect~~ of the competence, capabilities and objectivity of a management's experts ~~on~~ as part of the auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence.

...

## **ISA 701 – COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT**

### **Application and Other Explanatory Material**

...

#### **Determining Key Audit Matters** (Ref: Para. 9–10)

...

#### *Considerations in Determining Those Matters that Required Significant Auditor Attention* (Ref: Para. 9)

A16. The auditor may develop a preliminary view at the planning stage about matters that are likely to be areas of significant auditor attention in the audit and therefore may be key audit matters. The auditor may communicate this with those charged with governance when discussing the planned scope and timing of the audit in accordance with ISA 260 (Revised). However, the auditor's determination of key audit matters is based on the results of the audit procedures performed and ~~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**

---

<sup>47</sup> ISA 500 (Revised), paragraph 118

*Application of ISAs (Ref: Para. 7)*

...

- A6. Compliance with the requirements of ISAs relevant to the audit of a single financial statement or of a specific element of a financial statement may not be practicable when the auditor is not also engaged to audit the entity's complete set of financial statements. In such cases, the auditor often does not have the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the entity's complete set of financial statements. The auditor also does not have the audit evidence about the general quality of the accounting records or other accounting information that would be ~~obtained~~ ~~acquired~~ in an audit of the entity's complete set of financial statements. Accordingly, the auditor may need ~~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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## NZAuASB Board Meeting Supplementary Paper

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<b>AGENDA ITEM NO.</b>	6.4
<b>Meeting date:</b>	5 April 2023
<b>Subject:</b>	Submissions received by NZAuASB, including poll results from Virtual feedback forum
<b>Date:</b>	22 March 2023
<b>Prepared By:</b>	Bruce Mcniven

Action Required

For Information Purposes Only

### Background

This paper presents to the board, the feedback received during the consultation process – from:

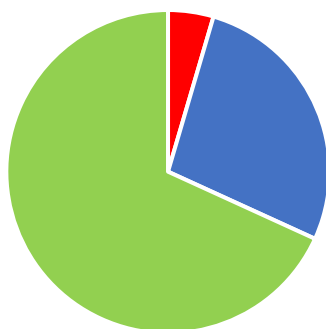
1. Virtual feedback forum (summary of poll results)
2. Roy Glass, OAG
3. A technical director of a Big 4 accounting firm
4. CAANZ

### Virtual Feedback Forum – Poll results

This is a summary of the poll results, extracted from Zoom, for the Virtual Feedback forum held on 1 March 2023.

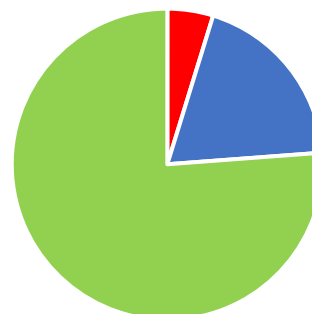
(Zoom only lists the answers that were populated; thus this report doesn't display the full option of possible responses). Those who voted as unsure were encouraged to further read the ED, and get in touch with us.

Do you support the revised definition of audit evidence?



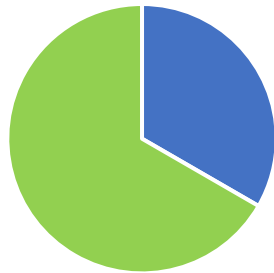
■ No ■ Unsure ■ Yes

Do you agree with the "input-output" model that information can become audit evidence only after audit procedures are applied to it?



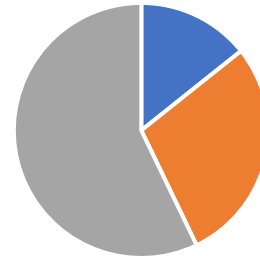
■ No ■ Unsure ■ Yes

Does the application material appropriately describe the interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence?



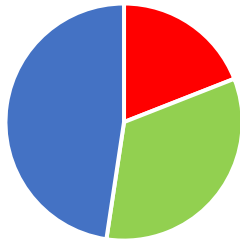
■ Unsure ■ Yes

What do you believe an auditor should do to information which is to be used as audit evidence?



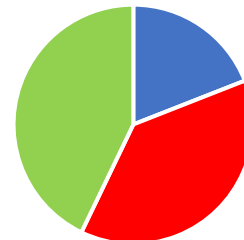
■ Unsure  
 ■ Evaluate relevance & reliability (as proposed)  
 ■ Consider relevance & reliability (as per current standard)

Will the proposed standard support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence?



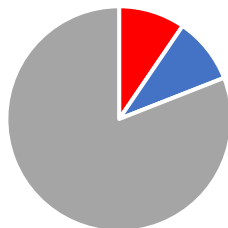
■ No ■ Yes ■ Unsure

Do you agree with the separate conditional requirements to obtain audit evidence about the accuracy and completeness of info when those attributes are applicable in the circumstances?



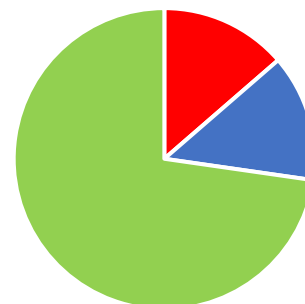
■ Unsure ■ No ■ Yes

How do you believe "accuracy and completeness" should be considered in evaluating the reliability of information?



■ Should not be considered separately  
 ■ Unsure  
 ■ Consider based on professional judgement (as proposed)

Do you agree with the new "stand back" requirement?



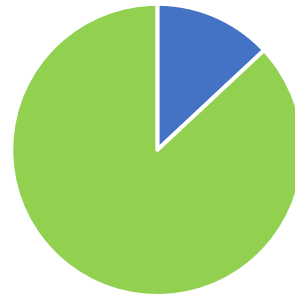
■ No ■ Unsure ■ Yes

Do you agree that the proposed standard is appropriately balanced with respect to technology?



■ No ■ Unsure ■ Yes

Does the standard reinforce the exercise of professional scepticism in obtaining and evaluating audit evidence?



■ Unsure ■ Yes

## **Submission received from Roy Glass, OAG**

**From:** Roy Glass <Roy.Glass@oag.parliament.nz>  
**Sent:** Wednesday, 1 March 2023 1:38 pm  
**To:** XRB Assurance Standards  
**Subject:** Comments on Proposed International Standard on Auditing 500 (Revised) Audit Evidence

Dear XRB

I have read the Proposed International Standard on Auditing 500 (Revised) Audit Evidence (the Exposure Draft) and have several observations, as set out below.

### **Para 13** (on page 25 of the Exposure Draft document)

Para 13 states:

*As a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with ISA 330, 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.*

From a plain reading of this para, (a) and (b) seem to be in the reverse order to what I would expect. I would expect the “consider” task to take place before the “evaluate” task.

### **Consequential change to ISA 240** (on page 59 of the Exposure Draft document)

Para 41 states:

*“If the auditor has identified a fraud or has obtained audit evidence information that indicates a fraud may exist, the auditor shall communicate these matters, ... , on a timely basis with the appropriate level of management ...”*

In my view “information” is the correct term to be used in this instance. Otherwise the auditor is required to collect audit evidence that indicates a fraud may exist, which is often time-consuming and onerous. The effect of this requirement is that it:

- Fails to recognise that the governors (supported by management) of an entity are responsible for the prevention and detection of fraud; and
- Frustrates and delays the timely communication of indications of fraud to the entity by the auditor; an important area where the auditor serves the interests of the entity subject to audit, those who have an interest in the entity, and the public interest.

### **Consequential change to ISA 505** (on pages 69 and 70 of the Exposure Draft document)

There is a vey minor inconsistency in the headings above paras 16 and A24

#### **Roy Glass**

Audit Improvement Director – Audit Quality Group  
+64 21 222 0126 | Roy.Glass@oag.parliament.nz

**XRB Conclusion:** Items noted and carried into the submission.



**Comments received in teams call**

We had a conversation via teams with a technical director of a Big 4 accounting firm.

<b>Stakeholder's Comments</b>	<b>XRB Conclusion</b>
He supports the deletion of the sentence that Information from external source is more reliable than internal source.	Item is noted, but not carried into the submission.
He suggests that the sentence in paragraph A63 is amended to "...For example, accuracy, <u>reliability</u> , and completeness ordinarily will be applicable for information generated internally from the entity's information system..."	Agree - Reliability is just as important for internally generated information as it is for externally generated information, therefore should be an attribute to be considered for internally generated information. We will carry this comment into the submission
<p>Use of a management's expert (paragraph 11 of ED)</p> <p>Once the auditor has undertaken the assessment of the managements expert, and perhaps assessed them as not competent, should that impact the risk assessment?</p> <p>There should be something explicitly stating how your assessment of managements expert impacts risk assessment. In ISA 500 no mention of how assessment of managements expert impacts risk assessment.</p>	<p>The standards are principles based, and cannot be expected to include every possibility. If the auditor considers the use of a management's expert impacts a risk assessment there is nothing precluding them from noting it in their risk assessment.</p> <p>Paragraph 25 of ISA 315 (Revised 2019) discusses how "the auditor shall obtain an understanding of the entity's information system and communication relevant to the preparation of the financial statements, through performing risk assessment procedures, by Understanding the entity's information processing activities, including its data and information, the resources to be used in such activities and the policies that define, for significant classes of transactions, account balances and disclosures:..."</p> <p>In Paragraph A138 it provides an example of, Information obtained from outside of the general and subsidiary ledgers, states "Fair value information produced by management's experts and disclosed in the financial statements."</p> <p>Thus it is possible to document the results of your assessment of a management's expert, as part of your understanding of the information processing activities, including the financial reporting process used to prepare the entity's financial statements.</p> <p>Item is noted, but not carried into the submission.</p>

<b>Stakeholder's Comments Cont'</b>	<b>XRB Conclusion</b>
<p>Definition of a management's expert (paragraph 7 of ED) <i>"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."</i></p> <p>The definition of managements expert excludes "accounting or auditing" However, there may be a case eg deferred tax calculation or goodwill evaluation, where a management's expert is used. Would the auditor then not need to consider their work under paragraph 11 of the ED, as taxation/ goodwill evaluation could be deemed as "accounting"?</p>	<p>The standards are principles based, and cannot be expected to include every possibility.</p> <p>As part of the understanding of the financial reporting process, in paragraph 25 of ISA 315 (Revised 2019), we would expect the auditor to understand and consider how the tax calculation was reached and any risks thereon. This would include human resources considerations including competency (paragraph A133 of ISA 315). It is debateable whether a tax expert used would fall under "accounting" as these can be standalone engagements, and thus would be classified as management's expert. Judgement should be used, and it would make sense to assess the work of the person calculating the deferred tax under paragraph 11 of the ED</p> <p>In regards to goodwill evaluation, in Paragraph A138 of ISA 315 (Revised 2019) it states that financial statements may include information obtained from outside of the general ledger, examples of such information that an auditor may consider includes "Fair value information produced by management's experts and disclosed in the financial statements." Thus a goodwill calculation prepared by a management's expert would still be assessed under paragraph 11 of the ED.</p> <p>Item is noted, but not carried into the submission.</p>

**Received from CAANZ – 22/3/2023**

Refer to pages 8 – 10.

**Subject:** CA ANZ preliminary staff views of IAASB ED Proposed ISA 500 (Revised) Audit Evidence

Dear Misha

The below are our high-level comments on the proposals contained in the IAASB's Exposure Draft *Proposed ISA 500 (Revised) Audit Evidence* (the ED) based on our outreach to date. These comments are preliminary CA ANZ staff views which may change as we finalise our joint submission to the IAASB with the ACCA. We hope the board finds them useful in its considerations.

#### **Overall comments**

We commend the IAASB for revising ISA 500 and for maintaining a principle-based approach in the standard.

ISA 500 is a key standard which sets the framework for the other 500 series standards and therefore it is important to get that framework right. While we have heard support for the need to revise ISA 500, we have also heard several concerns which need to be considered further. Some stakeholders commented that it is difficult to assess whether the ED establishes an appropriate framework until other standards in the 500 series are also revised.

#### *Balance of requirements and application material*

While the principles-based approach of the ED is clear, some stakeholder raised concerns about the balance of requirements versus application material (AM). AM can become de-facto requirements and push firms to adopt more compliance-based approaches. It would be beneficial if some of the AM could be moved to non-authoritative guidance. This is of particular concern in jurisdictions where auditing standards have legal enforceability.

#### *Work effort required*

Some stakeholders expressed concerns around both the use of the term 'evaluate' and the input-output model of audit evidence in relation to the level of work required. How much work is enough is judgemental and this has, historically, been an area where regulators interpret auditing standards differently to practitioners. Stakeholders expressed concerns that to avoid regulator disagreements, they may have to develop standard sets of procedures to address common forms of audit evidence, which again, results in a compliance focused audit approach, which can be detrimental to audit quality.

Some stakeholders questioned why the ED no longer differentiates between internally and externally sourced evidence as clearly as extant ISA 500.

While differences in judgement cannot be avoided in principles-based standards, non-authoritative guidance including detailed examples may be useful to avoid unintended consequences.

#### *Technology*

There was considerable concern about how the ED addresses technology. While stakeholders appreciate that technology changes quickly and for that reason referencing specific technologies in the requirements would be inappropriate, they felt that the ED does not go far enough to address technology. The following concerns were raised:

- Lack of clarity that the use of technology is an audit procedure.
- The ED requirements and AM seem to focus more on the use of technology tools in risks assessment rather than being clear they are appropriate in analytical and substantive procedures as well.
- The overall feedback was that the ED does not address the complexity of technology. The examples in the AM were viewed as too simplistic. For example, it was felt that auditors generally have a good understanding of the use of drones for inventory. Stakeholders felt that the AM needs to address more complex uses of technology such as data assurance. If this cannot be done in the standard, then the IAASB would need to provide non-authoritative guidance which can be updated more regularly to provide more detail about the use of technology in audit procedures. We are aware that several national standard setters (NSS) are developing or have released non-authoritative guidance to address aspects of the use of technology in audit. It would be preferable if the IAASB developed this non-authoritative guidance (assisted by NSS where necessary) to ensure a globally consistent approach.

*Linkages to ISA 330 and use of 'persuasiveness' as a term*

- Stakeholders commented that the linkage between the ED and ISA 330 needs to be clarified.
- They also questioned why use of the term "persuasiveness" is introduced in the AM, when it is not used in the requirements. There was confusion as to why it was singled out in the AM, when it is only one of the factors used to consider "sufficiency and appropriateness" under ISA 330. There were concerns that this introduces unnecessary complexity into the consideration of sufficiency and appropriateness.
- If the term "persuasiveness" is retained, the AM needs to address the relationship between the term and other key concepts such as sufficiency and appropriateness, and relevance and reliability.

*Relevance and reliability and the requirement to consider accuracy and completeness*

- There were strong views that it is not necessary to specifically call out consideration of accuracy and completeness in paragraph 10. Stakeholders felt that these are just two of the attributes of relevance and reliability and practitioners felt that this was again, adding complexity, when paragraph 9(b) already has a requirement to consider the applicable attributes of relevance and reliability.
- Concerns were also raised about the use of the term "applicable in the circumstances" in paragraph 9(b). Some stakeholders feel that this is another area where there is likely to be disagreements between regulators and practitioners that could have unintended consequences.

Kind regards

Melanie

**Melanie Scott**

(she/her)

**Senior Policy Advocate, Reporting and Assurance**

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**XRБ Conclusion: (summarised by email title)**

- Balance of requirements and application material: *Item is noted, but not carried into the submission. We consider the supportive application material to be sufficient and appropriate to assist the auditor in undertaking the audit and apply the requirements of the standard.*
- Work effort required: *Item is noted, but not carried into the submission. We note CAANZ's comment on why the ED no longer differentiates between internally and externally sourced evidence as clearly as the current standard – the IAASB intended to develop a standard that apply to both internal and externally sourced information, thus the differentiation is no longer required.*
- Technology: *Items noted and carried into the submission.*
- Linkages to ISA 330 and use of persuasiveness as a term: *In terms of the linkage between the ED and ISA 330, we have included in our submission the recommendation to link the stand-back requirement more explicitly.*

*In terms of persuasiveness, we will recommend that a the diagram from Canada is included to illustrate the interrelationship of the concepts. We do note that persuasiveness is not included in the requirements section and will include this*

- *Relevance and reliability and the requirement to consider accuracy and completeness: Regarding accuracy and completeness, Item is noted, but not carried into the submission, our stakeholders agreed with the proposal. Regarding paragraph 9(b), this is intended to address the scalability of the standard. Item is noted, but not carried into the submission.*

It should also be noted that CAANZ will be sending their own submission into the IAASB.

---



23 March 2023

Ms Misha Pieters  
Director – Auditing and Assurance Standards  
New Zealand External Reporting Board  
New Zealand

By Email: [Misha.Pieters@xrb.govt.nz](mailto:Misha.Pieters@xrb.govt.nz); [assurance@xrb.govt.nz](mailto:assurance@xrb.govt.nz)

**Re: Comment on IAASB’s Proposed International Standard on Auditing 500  
(Revised) Audit Evidence.**

The Auditing and Assurance Standards Committee of the Accounting and Finance Association of Australia and New Zealand (AFAANZ) is pleased to provide its comments on the International Auditing and Assurance Standards Board’s (IAASB’s) ED 500 ‘Audit Evidence’ as an input into the NZAuASB’s deliberations on this proposed standard.

AFAANZ is the peak regional academic accounting and finance association and counts among its membership the region’s leading and emerging accounting and finance researchers. The Auditing and Assurance Standards Committee is an ad-hoc committee under the governance of AFAANZ’s Auditing and Assurance Special Interest Group, formed to give a voice on standard setting deliberations to the academic research literature.

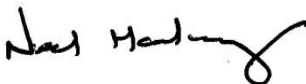
The views expressed in the comments that follow are those of the undersigned Committee members and do not necessarily reflect the official position of AFAANZ. While the views expressed represent a consensus view of the Committee, they do not necessarily reflect the individual views of every member.

If you have any questions on our submission, please contact either of the Committee Co-Chairs (Noel Harding – [n.harding@unsw.edu.au](mailto:n.harding@unsw.edu.au) or David Hay – [d.hay@auckland.ac.nz](mailto:d.hay@auckland.ac.nz)).

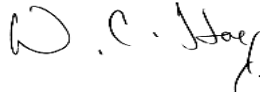
Yours Sincerely\*,



Yi (Dale) Fu  
Deakin University



Noel Harding  
UNSW Sydney




David Hay  
University of Auckland



Jahanzeb Khan  
Deakin University



Tom Scott  
Auckland University of Technology



Sarka Stepankova  
UNSW Sydney



Harj Singh  
Curtin University



Nigar Sultana  
Curtin University

\* All signed in their capacity as members of the AFAANZ Auditing and Assurance Standards Committee.



**Auditing and Assurance Standards Committee of  
Accounting and Finance Association of Australia and New  
Zealand  
(AFAANZ)**

**Comments on the International Auditing and Assurance Standards Board’s  
(IAASB’s) Proposed International Standard on Auditing 500 (ED-500)**

We begin by commending the International Auditing and Assurance Standards Board (and the New Zealand Auditing and Assurance Standards Board) for their work on revising the audit evidence standard. Sufficient appropriate evidence underpins the quality of the auditor’s judgment and is fundamental to audit quality and, therefore, confidence in capital markets. The research literature is replete with illustrations of the challenges that auditors face in effectively collecting and evaluating audit evidence (see Nelson and Tan 2005 for a review and Backof et al. 2018, Austin et al. 2020 and Hammersley and Ricci 2021 for recent examples). Enhancements to auditing standards that improve the evidence set available to auditors, and the evaluation of that evidence are, therefore, welcome developments. As a ‘reference framework’, we note the far-reaching implications for improvements in this critical and fundamental auditing standard.

Overall, we believe that the proposed standard achieves its objective of improving the generation and evaluation of audit evidence. In particular, we commend the increased focus on the process by which audit evidence is generated (as reflected in the input – output model) rather than just the output. However, on the basis of the extant research literature, we believe that there are opportunities to further improve the proposed standard. We discuss these opportunities in our response to individual questions.

In preparing our response, we limit ourselves to the broad principles presented in the proposed standard, rather than how the requirements in the proposed standard may be applied. We do not, therefore, include coverage of research outlining ways in which the requirements may be more effectively applied. These quality management issues do not fall within the remit of ED 500, but are more appropriately discussed with reference to ISQM 1 and ISA 220.

We also do not comment on the effectiveness of the proposed standard in terms of facilitating the ever-increasing use of automated tools and techniques, but do note that reference to established and emerging technologies, including AI, is largely absent from the proposed standard.

We limit our comments to the questions for which we are of the view that the extant research literature may meaningfully contribute. Specifically, we comment on Questions 1, 2, 5, 6, 9, 10 and 11.

In summary, we feel that the proposed standard;

- i. can be improved by providing additional application and other explanatory material to minimise the risk of shadow standards developing and to realise the benefits of the principles-based approach (see our response to Question 1),
- ii. should employ more appropriate work-effort verbs to prescribe requirements and recognise additional biases that may negatively impact the auditor’s generation and evaluation of evidence (see our response to Question 2),

- iii. can be improved to reinforce the appropriate exercise of professional scepticism (see our response to Question 5),
- iv. needs to more explicitly address threats to audit quality from the overconfidence bias that may be evident when applying the input – output model (see our response to Question 6),
- v. should emphasise that the attention given to accuracy and completeness is not meant to diminish the importance of the other attributes of relevance and reliability (see our response to Question 9),
- vi. should emphasise and provide a more complete coverage of the biases that may threaten the effectiveness of the stand back requirements (see our response to Question 10), and
- vii. should emphasise and provide a more complete coverage of the biases that may threaten the generation and evaluation of evidence originating from information prepared by a management’s expert.

We expand on these points below.

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?

**We support the principles-based reference framework but caution that a principles-based approach may lead to shadow standards that may be more restrictive than that originally intended. Application material may need to be revised to help ensure the benefits of the principles-based approach are realised.**

We support the principles-based framework in that research highlights that a principles rather than rules-based approach is likely to have a more positive impact on audit quality as the type and amount of work that the auditor does is tailored to the unique circumstances of each engagement (e.g., Willekens and Simunic 2007; Sin et al. 2015). The effectiveness of a principles-based approach, however, rests on the ethics and competence of those applying the standards (Knechel et al. 2013). Encouragingly, we acknowledge the strength of the extant ethics codes and quality management standards underlying the current suite of international standards on auditing.

We do, however, caution that principles-based standards can lead to differences in professional judgments (e.g., Peecher et al. 2013) and encourage auditors into a defensive mindset to minimise the risk of being second guessed by audit quality inspectors (e.g., Kang et al. 2015; Peecher et al. 2013). In addition, the potential for ex-post interpretation of the standards being different from ex-ante interpretation is increased when considering principles-based standards, and this may lead to ‘shadow’ standards that are less principles-based and more stringent than the ‘official’ standard (Knechel 2016). Similarly, Boland et al. (2020) discuss unofficial standard setting by inspection. To the extent that this is the case, the benefits of the principles-based reference framework might not be fully realised. This is particularly the case in the proposed standard where the auditor’s required work effort is determined by what is judged to be ‘applicable in the circumstances’ (see paragraph 9). Ye and Simunic (2013)

highlight the importance of balancing precision in auditing standards so as to encourage an optimal level of work effort.

Notwithstanding the IAASB's stated aversion to creating an unnecessary burden on auditors in evaluating the relevance and reliability of information, and emphasis that the attributes of relevance and reliability are not intended to be used as a checklist, we fear that this may be the way paragraph 9 is interpreted.

To address this concern, the IAASB may need to redraft the application and explanatory material that relates to the exercise of the auditor's judgment as to whether, and the degree to which, attributes of relevance and reliability are applicable. We believe that the existing material in paragraphs A53 – A62 is too focused on 'the extent to which' attributes may be applicable rather than 'whether' they are applicable.

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?

**While we are of the view that the proposed revisions in ED-500 will lead to enhanced auditor judgments when obtaining and evaluating evidence, we believe that further improvements are possible in terms of the work-effort verbs employed and the breadth with which potential biases are covered.**

We are of the view that the proposed revisions in ED-500 will lead to enhanced auditor judgments when obtaining and evaluating audit evidence, but believe that there are opportunities to further improve the proposed standard. In particular, we are concerned with some of the work-effort verbs employed in the standard, and the incomplete coverage of biases that can potentially negatively impact on the effective generation and evaluation of evidence.

With reference to the work-effort verbs employed to prescribe requirements, we note research that different instructional verbs can impact an auditor's judgment processes (Stepankova et al. 2022) and the spectrum of work effort implied by different verbs as outlined in the IAASB Drafting Principles and Guidelines.

We agree with the use of 'evaluate' and 'determine' in that they suggest an appropriately high level of work effort, but question the use of 'consider' in paragraphs 9, 10, 13 and 14 in that it implies a lower level of work effort than that which would appear necessary by the work being described. For example, is it appropriate for the auditor to merely 'consider' (a mid-level work effort verb analogous to 'reflect upon') the source of information and the attributes of relevance and reliability? We believe that 'evaluate' more effectively reflects the required work effort and would motivate auditor behaviour that is more commensurate with the importance of the tasks being performed.

We are also concerned by the incomplete coverage of biases that may negatively impact the auditor's generation and evaluation of evidence. Paragraph 8(a) requires auditors to design and perform audit procedures to obtain audit evidence such that evidence is neither biased toward evidence that is corroborative or contradictory. To support this requirement, paragraph A19 speaks of a number of biases, an awareness of which may mitigate threats to audit quality (i.e., confirmation bias, anchoring bias, availability bias and automation bias). We believe that this list is incomplete and encourage the IAASB to expand the coverage of biases in the proposed standard.

The auditing literature is replete with research highlighting the impact of biases on auditor judgments (see Knapp and Knapp 2012 for a concise summary of cognitive biases impacting audit engagements). Some important biases not currently discussed in the proposed standard

include overconfidence bias, hindsight bias, averaging bias, and representativeness bias. In particular, we believe that overconfidence bias is likely to have a significant impact on the evaluation of evidence (e.g., Pincus 1991). Similarly, we note research highlighting the impact of an averaging bias when auditors evaluate a combination of contradictory and confirmatory evidence items (Lambert and Peytcheva 2020).

We are also concerned that the current coverage of automation bias in paragraphs A22 and A23, which focusses on the overreliance of information from automated systems, does not acknowledge the possibility of algorithm aversion/apprehension which leads to an under-reliance on information from automated systems (e.g., Commerford et al. 2022). We encourage the IAASB to provide a more balanced coverage of automation biases in the application and other explanatory material.

5. Do the requirements and application material in ED-500 appropriately reinforce the exercise of professional scepticism in obtaining and evaluating audit evidence?

**We believe that there are opportunities for improvements in the proposed standard that will further reinforce the appropriate application of professional scepticism.**

We believe that there is a further opportunity for the IAASB to reinforce (and clarify) the exercise of professional scepticism in obtaining and evaluating audit evidence.

Professional scepticism, by definition (and application) is focused on the evaluation of evidence and is directly relevant to the requirements in Paragraph 13 and 14 of the proposed standard (and the application material in paragraphs A84 to A88). With the revised focus on both the information to be used as evidence and application of procedures on that information in order to convert information to evidence, the auditor's scepticism is directed not only toward the evaluation of evidence, but also the process by which that evidence is generated. We believe that this is a positive development, but is an improvement that will be easily lost on those applying the revised standard.

Audit research distinguishes between sceptical judgments, sceptical intentions and sceptical actions (e.g., Nelson 2009; Nolder and Kadous 2018) and a common finding in the research literature is that while auditors may make more sceptical judgments (e.g., questioning the reliability of information intended to be used as audit evidence), they do not express intentions and propose actions that will address the expressed level of scepticism (see Hurtt et al. 2013 for a review). We believe that focusing auditors on the process by which audit evidence is generated reinforces the exercise of professional scepticism in obtaining and evaluating evidence. In this regard, Bell et al. (2005) argue for the merit in focusing auditor's attention inward toward their own fallible judgments and Grenier (2017) and Harding and Trotman (2017) both demonstrate the merit in focusing the auditor's attention on process.

We do not, however, believe that the proposed standard realises its potential in terms of fostering the appropriate exercise of professional scepticism and we believe that there is an opportunity for the IAASB to elaborate on the application material applicable to paragraphs 8 and 9 to reinforce the need for the auditor to focus their questioning mind on the process by which the audit evidence is generated and not just the evaluation of that evidence.

We further note the reinforcement of the neutral professional scepticism perspective in the proposed standard, with the emphasis on not performing procedures that will bias the evidence obtained towards being either corroborative or contradictory. We are concerned, that the proposed standard, especially as a reference framework, may constrain the exercise of professional scepticism where asymmetric doubt is appropriate. One such area is the auditor's consideration of fraud. In such a situation, a presumptive doubt scepticism perspective is likely

to be more effective (Quadackers et al. 2014). We therefore believe that paragraph 8(a), as presently drafted, constrains the effective application of professional scepticism when the circumstances call for ex-ante bias. It also creates a conflict between paragraphs 8(c) and 8(b) in that ‘appropriate in the circumstances’ may involve procedures deliberately aimed at generating evidence that is biased toward corroborative or contradictory evidence. We believe that paragraph 8(a) should be rephrased to require that audit procedures be performed in a manner “...that is not *inappropriately* biased towards obtaining ...” and application material expanded to highlight the circumstances where the auditor may perform audit procedures that assume some asymmetric doubt.

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?

**We support the revised definition of audit evidence and the input-output model, but believe that improvements in the application material are necessary to highlight and minimise threats to audit quality from overconfidence bias.**

As noted in our response to Question 5, research findings support the increased focus on process implied in the input – output model (Bell et al. 2005; Grenier 2016; Harding and Trotman 2017). While we support the revised definition of audit evidence, we also caution that unintended biases may need to be addressed in the application and other explanatory material.

The revised definition of audit evidence requires the auditor to be more actively involved in the creation of audit evidence in that they must perform procedures on the information in order for evidence to be generated. This increased involvement in the generation of audit evidence, may give rise to biased interpretation of that evidence.

Research (e.g., Smith et al. 2016; Kachelmeier and Rimkus 2022) highlights that auditors who chose to acquire information rather than have it supplied to them weigh that evidence more heavily and are more confident in their judgments. The increased and explicit involvement in transforming information into evidence, therefore, may lead to a biased interpretation of that evidence.

As we note in our response to Question 2, we are concerned that overconfidence bias has not been acknowledged in paragraph A19 and we again encourage the IAASB to consider including overconfidence bias in the discussion on biases. This would facilitate a reference back to overconfidence bias in the application and other explanatory material relating to paragraph 13 (i.e., Evaluating the Audit Evidence Obtained).

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?

**We do not object to the emphasis on accuracy and completeness, but believe that the application material should emphasise that this is not meant to diminish the importance of other attributes.**

We do not object to the separate conditional requirement in paragraph 10 as it relates to accuracy and completeness, but are concerned that the increased salience associated with these attributes may reduce the perceived importance of the other attributes. In addition, we note

research (Joe et al. 2017) highlighting that auditors may be overly focused on and persuaded by quantified evidence which is often associated with accuracy, meaning the singling out of accuracy, among other attributes, may lead auditors to over-weigh the attribute of accuracy at the expense of other attributes.

To the extent that the IAASB wishes to emphasise the attributes of accuracy and completeness, we encourage the IAASB to also emphasise in application material (i.e., paragraphs A63 – A65) that the additional work effort required when the attributes of accuracy and completeness are applicable is not to diminish the importance and significance of other attributes in evaluating relevance and reliability.

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?

**We agree with the stand back requirement but believe that its effectiveness needs to be reinforced with a more complete coverage of the biases that may impact judgments associated with the stand back.**

We agree with the stand back requirements expressed in paragraph 13 in that research (Zimbelman 2022) highlights the merit in auditors making a second judgment (i.e., drawing on the crowd within – Vul and Pashler 2008). In making a second judgment, individuals apply their knowledge differently, thereby reducing noise and potential bias (Herzog and Hertwig 2009). We note, however, the potential for bias to be introduced when auditors return to their original judgment. Anchoring bias, where auditors over-weigh their initial judgment (Tversky and Kahneman 1974) when ‘standing back’ and reflecting on that judgment may be particularly troublesome in this setting. Similarly, we note in response to Question 6 that an information choice effect (e.g., Smith et al. 2016) may lead auditors to be overconfident in the evidence that they have generated which, in turn, may limit the effectiveness of the stand back requirements.

We therefore encourage the IAASB to explicitly make reference back to the discussion of biases in paragraph A19 – A23 when revising the application material relating to the stand back requirements in paragraph 13, and to present a more complete coverage of biases that may threaten the quality of audit evidence. See also our response to Question 2.

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.

**To the extent that the IAASB wishes emphasise information prepared by a management’s expert, we believe that the biases that may impact judgments made on the basis of information prepared by a management’s expert should be highlighted.**

We note the incremental requirements expressed in paragraph 11 when information intended to be used as audit evidence has been prepared by a management’s expert. Recognising the IAASB’s intent with regard to the incremental requirements, we feel that there is an opportunity to strengthen the requirements and application material as they relate to the unique circumstances of using a management’s expert.

Research (Agrawal et al. 2020) suggests that auditors may overly rely on the perceived reputation of the expert’s firm when evaluating the expert. That is, the evaluation may be subject

to an availability bias. Agrawal et al. (2020) also note that auditors may over-rely on the expert's work on account of the perceived superior knowledge of the expert (i.e., exhibit overconfidence). Similarly, Agrawal et al (2021) highlight that conversations with the management's expert (conversations necessary to obtain the understanding required in paragraphs 11(b) and 11(c) may bias the auditor's evaluation of relevance and reliability such that they may be less challenging of the management expert's work. See also Hux (2017) for a review of research on auditors' use of specialists (including management experts) which highlights biases that may negatively impact the evaluation and use of a management expert's work.

Given that the IAASB wishes to make special mention of the circumstances around information prepared by a management expert, and not rely on the principles contained in paragraph 9, we encourage the IAASB, in the application material accompanying paragraph 11, to explicitly refer the auditor back to the discussion on biases in paragraph A19 and to provide a more complete discussion on the biases that may impact judgments relating to the generation and evaluation of evidence. See also our response to Question 2.

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

This Agenda Item includes proposed ISA 570 (Revised 202X) (marked from December 2022). Since the December 2022 IAASB meeting the standard was renumbered to show the requirements and application material in sequence.

**Introduction****Scope of this ISA**

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report. Although this ISA applies irrespective of the entity's size or complexity, particular considerations apply only for audits of financial statements of listed entities. (Ref: Para. A1)

**Going Concern Basis of Accounting**

2. Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. General purpose financial statements are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant (e.g., the going concern basis of accounting is not relevant for some financial statements prepared on a tax basis in particular jurisdictions). When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business. (Ref: Para. A2)

**Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern**

3. Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern. For example, International Accounting Standard (IAS) 1 requires management to make an assessment of an entity's ability to continue as a going concern.<sup>1</sup> The detailed requirements regarding management's responsibility to assess the entity's ability to continue as a going concern and related financial statement disclosures may also be set out in law or regulation. (Ref: Para. A3)
4. In other financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. Nevertheless, where the going concern basis of accounting is a fundamental principle in the preparation of financial statements as discussed in paragraph 2, the preparation of the financial statements requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.

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

5. Management’s assessment of the entity’s ability to continue as a going concern involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions. The following factors are relevant to that judgment:
- The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs. For that reason, most financial reporting frameworks that require an explicit management assessment specify the minimum period for which management is required to take into account all available information.
  - The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors affect the judgment regarding the outcome of events or conditions.
  - Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

#### *Responsibilities of the Auditor*

6. The auditor’s responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity’s ability to continue as a going concern.
7. However, as described in ISA 200,<sup>2</sup> the potential effects of inherent limitations on the auditor’s ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions. Accordingly, the absence of ~~any reference to~~ a material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in an auditor’s report cannot be viewed as a guarantee as to the entity’s ability to continue as a going concern.

#### **Effective Date**

8. This ISA is effective for audits of financial statements for periods ~~{...}~~beginning on or after [DATE].

#### **Objectives**

9. The objectives of the auditor are:
- (a) To obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements;

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

- (b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
- (c) To report in accordance with this ISA.

## Definition

10. For purposes of the ISAs, the following term has the meaning attributed below:

Material Uncertainty (Related to Going Concern)—An uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern where the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's professional judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (Ref: Para. A4–A5)

- (a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or
- (b) In the case of a compliance framework, the financial statements not to be misleading.

## Requirements

### Risk Assessment Procedures and Related Activities

11. In applying ISA 315 (Revised 2019),<sup>3</sup> the auditor shall design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for the identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A6–A14)

### *Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control*

12. In applying ISA 315 (Revised 2019),<sup>4</sup> the auditor shall perform risk assessment procedures to obtain an understanding of: (Ref: Para. A8–A14):

#### The Entity and Its Environment

- (a) The entity's business model, objectives, strategies and related business risks relevant to identifying events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A15)
- (b) Industry conditions, including the competitive environment, technological developments, and other external factors affecting the entity's financing.
- (c) The measures used, internally and externally, to assess the entity's financial performance, including forecasts, future cash flows, and management's budgeting processes. (Ref: Para. A16)

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

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

#### The Applicable Financial Reporting Framework

- (d) The requirements of the applicable financial reporting framework relating to ~~the~~ going concern ~~basis of accounting~~, and the related disclosures that are required to be included in the entity's financial statements. (Ref: Para. A17)
- (e) The basis for management's intended use of the going concern basis of accounting. (Ref: Para. A18)

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

- (f) Unless all of those charged with governance are involved in managing the entity,<sup>5</sup> how those charged with governance exercise oversight over management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A19–A20)
- (g) The entity's risk assessment process to identify, assess and address business risks relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- (h) How management identifies the relevant method, assumptions and data that are appropriate in assessing the entity's ability to continue as a going concern. (Ref: Para. A21)
- (i) ~~How the entity's~~The financial reporting process ~~used to prepare the entity's financial statements as it relates to~~addresses disclosures related to the entity's ability to continue as a going concern. (Ref: Para. A22).

#### *Remaining Alert Throughout the Audit for Information about Events or Conditions*

- 13. The auditor shall remain alert throughout the audit for information about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A23–A25)

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

- 14. In applying ISA 315 (Revised 2019),<sup>6</sup> the auditor shall determine whether the audit evidence obtained from risk assessment procedures and related activities indicates the existence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management has not previously identified or disclosed to the auditor. (Ref: Para. A26–A27)

#### *Control Deficiencies Within the Entity's System of Internal Control*

- 15. In applying ISA 315 (Revised 2019),<sup>7</sup> based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether one or more control deficiencies in respect of management's assessment of going concern have been identified. (Ref: Para. A28)

#### **Evaluating Management's Assessment**

- 16. The auditor shall design and perform audit procedures to evaluate management's assessment of the

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

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

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

entity's ability to continue as a going concern. (Ref: Para. A29–A31)

17. In designing and performing the audit procedures required by paragraph 16, the auditor shall do so in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. (Ref: Para. A32)

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

[Moved]

18. The audit procedures required by paragraph 16 shall include evaluating: (Ref: Para. A33, A38)
- (a) The method used by management to assess the entity's ability to continue as a going concern, including whether the:
    - (i) Method selected is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from the method used in prior periods are appropriate; and (Ref: Para. A34)
    - (ii) Calculations are applied in accordance with the method and are mathematically accurate. (Ref: Para. A35)
  - (b) Whether the assumptions on which management's assessment is based are: (Ref: Para. A36).
    - (i) Appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate; and
    - (ii) Consistent with each other and with related assumptions used in other areas of the entity's business activities, based on the auditor's knowledge obtained in the audit.
  - (c) Whether the data is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate. (Ref: Para. A37)

#### *Period Beyond Management's Assessment*

[Moved]

19. The auditor shall inquire of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A39–A41)

#### *Requesting Management to Make or Extend Its Assessment*

20. Where management has not yet performed an assessment of the entity's ability to continue as a going concern, the auditor shall request management to make its assessment.

#### *Period of Management's Assessment*

21. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of approval of the financial statements as defined in ISA 560,<sup>8</sup> The the

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

auditor shall request management to extend its assessment period to at least twelve months from ~~the date of approval of the financial statements as defined in ISA 560,<sup>9</sup> if:~~ (Ref: Para. A42)

- ~~(a) Management's assessment of the entity's ability to continue as a going concern covers less than twelve months from that date, or~~
- ~~(b) The applicable financial reporting framework does not specify the period to be covered by management's assessment of the entity's ability to continue as a going concern.~~

#### ~~Management Unwilling to Make or Extend Its Assessment~~

- 22. If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall discuss the matter with management, and, whereif appropriate, ~~with~~ those charged with governance. (Ref: Para. A43–A44)
- 23. In circumstances where the auditor believes it is necessary for management to make or extend its assessment and management is unwilling to do so, the auditor shall determine the implications for the audit. (Ref: Para. A45)

#### *Information Used in Management's Assessment*

- 24. In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall consider whether management's assessment includes all relevant information of which the auditor is aware as a result of the audit.
- 25. If the auditor identifies events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management has not previously identified or disclosed to the auditor, the auditor shall:
  - (a) Discuss the matter with management to understand the effects of those events or conditions on management's assessment of the entity's ability to continue as a going concern;
  - (b) Determine whether it is necessary to Requestrequest management to revise its going concern assessment ~~by performing additional procedures to understand address~~ the effect of ~~the those~~ events or conditions ~~that may cast significant doubt on the entity's ability to continue as a going concern;~~ and (Ref: Para. A46) ~~and~~
  - (c) If applicable, design and Perform—perform additional audit procedures to evaluate management's revised assessment of the entity's ability to continue as a going concern in accordance with paragraphs 16-18.

#### **Evaluating Management's Plans for Future Actions**

- 26. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall evaluate management's plans for future actions in relation to its going concern assessment, including whether: (Ref: Para. A47–A50)
  - (a) The outcome of these plans is likely to improve the situation;
  - (b) Management's plans are feasible in the circumstances; and

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<sup>9</sup> ~~ISA 560, Subsequent Events, paragraph 5(b)~~

- (c) Management has both the intent and ability to carry out specific courses of action.

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

27. If management’s plans for future actions include financial support by third parties or related parties, including the entity’s owner-manager, the auditor shall evaluate the intent and ability of those parties to maintain or provide the necessary financial support. (Ref: Para. A51–A53)

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

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

**Evaluating the Audit Evidence Obtained and Concluding**

30. The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding, and shall conclude on, the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements. In doing so, the auditor shall:
- (a) Evaluate whether the judgments and decisions made by management in making its assessment of the entity’s ability to continue as a going concern, even if they are individually reasonable, are indicators of possible management bias. When indicators of possible management bias are identified, the auditor shall evaluate the implications for the audit. (Ref: Para. A56–A59)
  - (b) Consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions in the financial statements.
31. Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor’s judgment, a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.
32. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall ~~determine~~ evaluate the implications for the audit or the auditor’s opinion on the financial statements in accordance with ISA 705 (Revised).<sup>10</sup>

**Adequacy of Disclosures**

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

33. If events or conditions have been identified that may cast significant doubt on the entity’s ability to

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<sup>10</sup> ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor’s Report*



continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions. (Ref: Para. A60–A63, A65)

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

34. If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements: (Ref: Para. A64–A65)
- (a) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans for future actions to deal with these events or conditions; and
  - (b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

#### **Implications for the Auditor's Report**

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

35. If the auditor concludes that the going concern basis of accounting is appropriate and no material uncertainty exists, the auditor shall include a separate section in the auditor's report with the heading "Going Concern", and ~~state that the auditor:~~ (Ref: Para. A66–A67)

(a) State that the auditor: (Ref: Para. A68–A69)

- (i) Concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- ~~(ii) —Based on the audit evidence obtained, has not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.~~

~~(iii)(ii) *Events or Conditions Have Been Identified – No Material Uncertainty Exists*~~

- ~~(a)(b) For an audits of financial statements of a listed entities, if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists ~~the auditor shall include a separate section in the auditor's report with the heading "Going Concern" and:~~ (Ref: Para. A70–A71, A76)~~

~~(a) —State that the auditor:~~

- ~~(i) —Concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;~~
- ~~(ii) —Based on the audit evidence obtained, has not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern;~~

- (i) ~~Include a reference to the related disclosure(s), if any, Draw attention to the note in the financial statements that discloses the matters set out in paragraph 33, if any; and (Ref: Para. A60–A63, A65)~~
- ~~(ii) Describe how the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern; and (Ref: Para. A72–A75)~~
- ~~(iii)(ii) State that the auditor’s opinion is not modified in respect of the matter.~~

*Use of Going Concern Basis of Accounting Is Appropriate – A Material Uncertainty Exists*

*Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements*

36. If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor’s report shall include a separate section under the heading “Material Uncertainty Related to Going Concern” and: (Ref: Para. A66–A67, A77–A78)
- (a) State that the auditor concluded that management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
  - (b) ~~Include a reference to the related disclosure(s) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 34; (Ref: Para. A64–A65)~~
  - (c) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity’s ability to continue as a going concern;
  - (d) For an audits of financial statements of a listed ~~entities~~entity, describe how the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern; and (Ref: Para. A72–A75)
  - (e) State that the auditor’s opinion is not modified in respect of the matter.

*Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements*

37. If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall: (Ref: Para. A66–A67, A77, A79)
- (a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA 705 (Revised);
  - (b) In the Basis for Qualified (Adverse) Opinion section of the auditor’s report, state that a material uncertainty exists and that the financial statements do not adequately disclose this matter;
  - (c) Include in the auditor’s report a separate section under the heading “Material Uncertainty Related to Going Concern” and ~~shall~~:
    - (i) State that the auditor concluded that management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
    - (ii) Draw attention to the Basis for Qualified (Adverse) Opinion section of the auditor’s report that states that a material uncertainty exists that has not been adequately disclosed in the financial statements.

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

38. When the auditor disclaims an opinion on the financial statements, unless required by law or regulation, the auditor's ~~report~~ shall not include separate sections on Going Concern or Material Uncertainty Related to Going Concern in the auditor's report.<sup>11</sup> (Ref: Para. A80–A81)

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

39. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, ~~the auditor shall~~: (Ref: Para. A82–A83)
- (a) The auditor shall eExpress an adverse opinion; and
  - (b) Unless required by law or regulation, the auditor's ~~report~~ shall not include separate sections on "Going Concern" or "Material Uncertainty Related to Going Concern" in the auditor's report.

### **Written Representations**

40. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern the auditor shall request written representations from management<sup>12</sup> and, where appropriate, those charged with governance, regarding: (Ref: Para. A84)
- (a) Their plans for future actions;
  - (b) The feasibility of these plans; and
  - (c) Whether management has the intent to carry out specific courses of action and has the ability to do so.

### **Communication with Those Charged with Governance**

41. Unless all those charged with governance are involved in managing the entity,<sup>13</sup> the auditor shall communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. Such communication with those charged with governance shall include the following: (Ref: Para. A85–A86)
- (a) Whether the events or conditions constitute a material uncertainty;
  - (b) Whether management's use of the going concern basis of accounting is appropriate in the preparation of the financial statements;
  - (c) An overview of the audit procedures performed and the basis for the auditor's conclusions, including the auditor's evaluation of management's plans for future actions;
  - (d) The adequacy of related disclosures in the financial statements, including disclosures that describe the significant judgments made by management and the mitigating factors in management's plans that are of significance to overcoming the adverse effects of the events or conditions;

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<sup>11</sup> ISA 705 (Revised), paragraph 29

<sup>12</sup> ISA 580, *Written Representations*

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

- (e) When applicable, management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested; and
- (f) The implications for the audit or the auditor's report. (Ref: Para. A87)

### **Reporting to an Appropriate Authority Outside of the Entity**

42. When the auditor considers it necessary to include a separate section under the heading "Material Uncertainty Related to Going Concern" in the auditor's report, or issue a modified opinion in respect of matters related to going concern, the auditor shall determine whether law, regulation or relevant ethical requirements: (Ref: Para. A88–A91)
- (a) Require the auditor to report to an appropriate authority outside the entity.
  - (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

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### **Application and Other Explanatory Material**

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

- A1. ISA 701<sup>14</sup> deals with the auditor's responsibility to communicate key audit matters in the auditor's report. That ISA acknowledges that, when ISA 701 applies, a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is, by its nature, a key audit matter.<sup>15</sup> However, in such circumstances, the implications for the auditor's report are in accordance with this ISA.

#### **Going Concern Basis of Accounting**

##### *Considerations Specific to Public Sector Entities* (Ref: Para. 2)

- A2. Management's use of the going concern basis of accounting is also relevant to public sector entities. For example, International Public Sector Accounting Standard (IPSAS) 1 addresses the issue of the ability of public sector entities to continue as going concerns.<sup>16</sup> Going concern risks may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where government support may be reduced or withdrawn, or in the case of privatization. Events or conditions that may cast significant doubt on an entity's ability to continue as a going concern in the public sector may include situations where the public sector entity lacks funding for its continued existence or when policy decisions are made that affect the services provided by the public sector entity.

#### **Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern** (Ref: Para. 3)

- A3. The circumstances in which entities prepare financial statements on a going concern basis of accounting may vary. For example, IAS 1 explains that those circumstances could range from when an entity has a history of profitable operations and ready access to financial resources, to when

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<sup>14</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>15</sup> ~~See paragraph 15 of ISA 701, paragraph 15-~~

<sup>16</sup> IPSAS 1, *Presentation of Financial Statements*, paragraphs 38–41

management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.<sup>17</sup>

**Definition** (Ref: Para. 10)

- A4. The applicable financial reporting framework may or may not explicitly use the term “material uncertainty” when describing the uncertainties that are required to be disclosed in the financial statements related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. For example, the term “material uncertainty” is used in IAS 1. In some other financial reporting frameworks the term “significant uncertainty” is used in similar circumstances. The auditor is required by paragraph 31 to conclude whether such a material uncertainty exists regardless of whether or how the applicable financial reporting framework defines a “material uncertainty.”
- A5. The applicable financial reporting framework may not define or describe the phrase “may cast significant doubt” or may use other terms or phrases. For the purposes of this ISA, the phrase “may cast significant doubt” is used in circumstances a significant doubt on the entity’s ability to continue as a going concern may exist when the individual or collective magnitude of identified events or conditions is such that the entity may will be unable to meet its obligations and continue its operations for the foreseeable future unless management takes remedial actions to mitigate the effects of these events or conditions. Remedial actions may include, For for example, that management may need to realizerealizes assets sooner than originally intended or obtains alternative or additional sources of liquidity funding to support the entity’s ability to continue as a going concern. In such circumstances, the timing of the events or conditions giving rise to the uncertainty may also be relevant. For example, the shorter the time period in which management must take remedial action, the more significant the doubt-uncertainty may be about the entity’s ability to continue as a going concern.

**Risk Assessment Procedures and Related Activities**

*Events or Conditions That May Cast Significant Doubt on the Entity’s Ability to Continue as a Going Concern* (Ref: Para. 11)

- A6. The auditor’s identification of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern is before consideration of any related mitigating factors included in management’s plans for future actions. The auditor considers such mitigating factors in accordance with paragraphs 26–27. Some events or conditions may not be significant when considered individually, however when considered collectively with other events or conditions they may cast significant doubt on the entity’s ability to continue as a going concern.

Examples:

The following events or conditions are examples of identified events or conditions that, of events or conditions that individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern. These examples are not all-inclusive, nor does the existence of one or more of the items always signify that a material uncertainty exists.

<sup>17</sup> IAS 1, paragraph 26

#### Financial

- Net liability or net current liability position.
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
- Indications of withdrawal of financial support by creditors.
- Recurring negative cash flows from operations or inability to generate cash flows from operations indicated by historical or prospective financial statements.
- Adverse key financial ratios.
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
- Arrears or discontinuance of dividends.
- Inability to pay creditors on due dates.
- Non-compliance or marginal ability to meet debt repayment or other debt covenant requirements or comply with the terms of loan agreements.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain additional debt or equity financing to stay competitive, including for financing or major research and development, capital expenditures, essential new product development and other essential investments.

#### Operating

- Management intentions to liquidate the entity or to cease operations.
- Loss of key personnel and management without replacement.
- Significant declines in customer demand.
- Loss of a major market, significant customer(s), franchise, license, or principal supplier(s).
- Labor difficulties.
- Shortages of important supplies.
- Emergence of a highly successful competitor.

#### Other

- Significant or sustained business interruption due to a cyber attack (e.g., denial of access to information or inability to provide service).
- Non-compliance or marginal ability to meet capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions or exchange listing requirements.
- Pending litigation and contingent liabilities arising from matters such as sales warranties, financial guarantees and environmental remediation or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.

- Changes in law or regulation or government policy expected to adversely affect the entity, including sustainability related matters.
- Substantial decrease in share price.
- Significant exposures to volatile markets, such as exchange rates, commodities (e.g., crude oil prices), equities or interest rates.
- Uninsured or underinsured catastrophes or business interruption losses when they occur (e.g., an earthquake).
- Changes in the environment such as war, civil unrest, outbreaks of disease expected to adversely affect the entity or physical risks related to climate change (e.g., extreme flooding).

A7. In certain circumstances, the auditor may identify fraud risk factors arising from ~~the~~ events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that are relevant to the identification and assessment of the risks of material misstatement due to fraud in accordance with ISA 240.<sup>18</sup>

Examples:

- Recurring negative cash flows from operations or an inability to generate cash flows from operations may create a threat of bankruptcy, foreclosure, or hostile takeover that may indicate an incentive or pressure to commit fraud.
- Non-compliance or marginal ability to meet debt covenant requirements may threaten the ability to renew borrowings and indicate an incentive or pressure to improve the business performance or to intentionally misstate the financial statements.

*Risk Assessment Procedures and Related Activities* (Ref: Para. 11–12)

A8. ISA 315 (Revised 2019) contains requirements and guidance regarding the auditor's responsibility to obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control, and the identification and assessment of the risks of material misstatement whether due to fraud or error. The requirements and guidance in this ISA refer to, or expand on, what is required by ISA 315 (Revised 2019) relevant to identifying events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

A9. The risk assessment procedures and related activities assist the auditor in determining whether management's use of the going concern basis of accounting is likely to be an important issue and its impact on planning the audit. In particular, when performing risk assessment procedures, such as those required by paragraphs 11–12, the auditor may identify information about certain events or conditions that, when considered individually or collectively, indicate that there ~~may are events or conditions that may be cast~~ significant doubt on the entity's ability to continue as a going concern. These procedures also allow for more timely discussions with management, including a discussion of management's plans for future actions and resolution of any identified going concern issues when events or conditions are identified that may cast significant doubt on the entity's ability to continue as

<sup>18</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 24

a going concern. The auditor uses professional judgment to determine the nature and extent of the risk assessment procedures to be performed to meet the requirements of this ISA.

A10. ISA 315 (Revised 2019)<sup>19</sup> requires the auditor to design and perform risk assessment procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. Designing and performing risk assessment procedures in an unbiased manner may assist the auditor in identifying potentially contradictory information, which may assist the auditor in maintaining professional skepticism when identifying whether the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern give rise to a risk of management bias in the preparation of the financial statements (also see paragraphs A56–A59).

A11. The following are examples of risk assessment procedures that may be relevant:

Examples:

The Entity and its Environment

- Inquiries of financial planning and analysis personnel related to cash flow, profit and other relevant forecasts to understand the sensitivity analysis related to future earnings included in management's assessment of going concern.
- Inquiries of the entity's legal counsel about the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.
- Review of previous forecasts (retrospective review) to obtain information regarding the effectiveness of management's process for assessing going concern.
- Inspecting the terms of debentures and loan agreements and determining whether any have been breached.

The Applicable Financial Reporting Framework

- Inspecting disclosures about the significant judgments and assumptions management makes about the future included in the entity's latest available financial statements that may be indicative of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

The Entity's System of Internal Control

- Inspecting the minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.

A12. The auditor may also use automated tools and techniques when designing and performing risk assessment procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

<sup>19</sup> ISA 315 (Revised 2019), paragraph 13



Examples:

The auditor may use automated tools and techniques when:

- Performing analytical procedures to understand the trends of key financial ratios (e.g., the entity's key sources of earnings and their relationship to cash generation) or identify inconsistencies or unusual events.
- Applying predictive models to assess an entity's financial condition or to understand the impact of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (e.g., models for bankruptcy prediction).

Scalability (Ref: Para. 11–12)

A13. The nature and extent of the auditor's risk assessment procedures may vary based on the nature and circumstances of the entity.

Examples:

The Entity and its Environment

- The nature and extent of the auditor's risk assessment procedures to obtain an understanding of the measures used, internally and externally, to assess the entity's financial performance are likely to be more extensive for entities with a complex structure and business activities. Such entities may also have complex borrowing arrangements with lenders, suppliers or group entities. In contrast, for smaller or less complex entities whose business activities are simple with few lines of business and with uncomplicated borrowing arrangements the nature of the auditor's risk assessment procedures is likely to be less extensive.

The Applicable Financial Reporting Framework

- When the entity's business activities are affected to a lesser degree by uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the related disclosures in the entity's financial statements may be straightforward and the applicable financial reporting requirements may be simpler to apply. In such circumstances, the auditor's procedures to obtain an understanding of the basis for management's intended use of the going concern basis of accounting are likely to be less extensive.

The Entity's System of Internal Control

- The nature and extent of the auditor's risk assessment procedures may also depend on the extent to which certain matters apply in the circumstances. For example, those charged with governance in smaller or less complex entities may not include independent or outside members who exercise oversight over management's assessment of the entity's ability to continue as a going concern. In addition, the entity's risk assessment process may be undertaken through the direct involvement of the owner-manager.

A14. The following considerations may be relevant for smaller or less complex entities:

- The size of an entity may affect its ability to withstand adverse conditions. Smaller entities may be able to respond quickly to exploit opportunities, but may lack reserves to sustain operations.
- Conditions of particular relevance to smaller entities include the risk that banks and other lenders may cease to support the entity, as well as the possible loss of a principal supplier, major customer, key employee, or the right to operate under a license, franchise or other legal agreement.

*Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control*

The Entity and Its Environment (Ref: Para. 12(a), 12(c))

A15. The entity's business model, objectives, strategies and related business risks may give rise to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Some business risks may be so significant that they have implications for the conclusion as to the appropriateness of the entity's use of the going concern basis of accounting, and determination as to whether a material uncertainty exists.

Examples:

- Industry developments, such as the lack of access to appropriate personnel or expertise to deal with the changes in the industry or loss of significant customers or market share.
- New products and services that may lead to increased product liability.
- Expansion of the entity's business, and demand that has not been accurately estimated.
- Regulatory requirements resulting in increased legal exposure or financial impacts or restrictions on business activities, including arising from related to sustainability related matters.
- Current and prospective financing requirements, such as loss of financing due to the entity's inability to meet certain predetermined revenue metrics.
- Incentives and pressures on management, which may result in management bias, and therefore affect the reasonableness of assumptions used in management's assessment of the entity's ability to continue as a going concern.

A16. Management will likely use information available about the future as well as historical information from internal and external sources when identifying events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Obtaining an understanding of the measures used, internally or externally, may highlight unexpected results or trends that may indicate the existence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Examples:

- Internal performance measures may indicate an unusual deterioration in sales volume when compared to that of other entities in the same industry that may be indicative of a significant

decline in market share or loss of customers.

- External information sources, such as pricing data, comparable data about competitors (benchmarking data) or macro-economic data may indicate competitive, industry, economic and other factors that are used in the entity's forecasts, future cash flow and budgeting processes.
- The analysis of the entity's financial performance by external parties, such as analysts, credit agencies or institutional investors, may highlight inconsistencies with management's performance measures.

The Applicable Financial Reporting Framework (Ref: Para. 12(d), 12(e))

A17. Obtaining an understanding of the requirements of the applicable financial reporting framework provides the auditor with information about the recognition, measurement and presentation criteria in the applicable financial reporting framework, and how they apply in the preparation of the financial statements under the going concern basis of accounting. The applicable financial reporting framework may also include disclosure requirements about the significant judgments and assumptions management makes in concluding ~~that there are whether or not there are is no~~ a material uncertainty ~~yes~~ related to ~~events or conditions that may cast significant doubt on the entity's ability to continue as a~~ going concern. Law or regulation may also include disclosure and other detailed requirements when preparing financial statements on the going concern basis of accounting.

A18. The nature, extent, timing and frequency of management's assessment of the entity's ability to continue as a going concern may vary from entity to entity. In some entities, management may make assessments of the entity's ability to continue as a going concern more frequently as part of continuous monitoring, while in other entities it may be made on an annual basis. If such an assessment has not yet been performed, the auditor may obtain an understanding of the basis for the intended use of the going concern basis of accounting through discussion with management and inquire of management whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern.

The Entity's System of Internal Control (Ref: Para. 12(f), 12(h), 12(i))

A19. Obtaining an understanding of the oversight by those charged with governance may be particularly important when the assessment of the entity's ability to continue as a going concern:

- Requires significant judgment by management to assess whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; or
- Is complex to make, for example, because of the use of multiple data sources or assumptions with complex interrelationships.

A20. The effectiveness of management's assessment of the entity's ability to continue as a going concern may be influenced by the oversight exercised by those charged with governance. The auditor may obtain an understanding of whether those charged with governance:

- Have the skills or knowledge to understand the appropriateness of the method used by management in assessing the entity's ability to continue as a going concern.

- Have the skills or knowledge to understand whether management’s assessment of the entity’s ability to continue as a going concern has been made in accordance with the requirements of the applicable financial reporting framework.
- Are independent from management, have the information required to evaluate on a timely basis how management made the assessment of the entity’s ability to continue as a going concern, and the authority to call into question management’s actions when those actions appear to be inadequate or inappropriate.
- Oversee management’s process for making the assessment of the entity’s ability to continue as a going concern.

A21. Aspects that may be relevant to the auditor’s understanding of how management determines the relevant method, assumptions and data may include:

- The basis for management’s selection of the method, assumptions and data used in assessing the entity’s ability to continue as a going concern; and
- ~~if~~ alternative methods, assumptions or data were considered by management, including:
  - How management determines that the assumptions are relevant and complete.
  - How management determines the relevance, accuracy and completeness of the data used in the assessment.

A22. The disclosures related to the entity’s ability to continue as a going concern may contain information that is obtained from other supporting records and information from outside of the general and subsidiary ledgers (e.g., information produced by an entity’s risk management system about hedging strategies or sensitivity analysis derived from financial models that demonstrate management has considered alternative assumptions). As part of obtaining an understanding of the entity’s system of internal control, the auditor may consider how management determines the appropriateness of such information used to develop the disclosures related to the entity’s ability to continue as a going concern.

*Remaining Alert Throughout the Audit for Information about Events or Conditions* (Ref: Para. 13)

A23. As explained in ISA 315 (Revised 2019),<sup>20</sup> obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control is a dynamic and iterative process of gathering, updating and analyzing information and continues throughout the audit. Therefore, the auditor’s identification of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern may change as new information is obtained.

Example:

The auditor may identify a risk of a material misstatement associated with the valuation assertion for a lender of medium-term real estate backed loans because of a fall in real estate market values. The same event in combination with a severe economic downturn may have a longer-term consequence, and a greater impact on the assessment of the risk of material misstatement that

<sup>20</sup> [ISA 315 \(Revised 2019\), paragraph A48](#)

may also indicate an event or condition that may cast significant doubt on the entity's ability to continue as a going concern.

- A24. ISA 315 (Revised 2019) requires the auditor to revise the auditor's identification or assessment of the risks of material misstatement if the auditor obtains new information which is inconsistent with the audit evidence on which the auditor originally based the identification or assessment of risk.<sup>21</sup> If events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are identified after the auditor's risk identification or assessments are made, in addition to performing the procedures in this ISA, the auditor's identification or assessment of the risks of material misstatement may need to be revised.
- A25. The auditor may also become aware of events or conditions that may cast **significant** doubt on the entity's ability to continue as a going concern from:
- External information sources (e.g., publicly available information of the entity's financial performance by external parties, information about risk factors such as short-selling of shares, industry or macro-economic forward-looking information such as economic or earnings forecasts).
  - Other engagements performed for the entity (e.g., an agreed-upon procedures engagement).
  - The auditor's consideration of the other information in accordance with ISA 720 (Revised).<sup>22</sup>

*Identification and Assessment of the Risks of Material Misstatement Associated with Going Concern* (Ref: Para. 14)

- A26. If the auditor identifies events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management failed to identify or disclose to the auditor, this may constitute a deficiency in internal control. ISA 265<sup>23</sup> deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements.
- A27. When management has intentionally failed to identify or disclose **to the auditor** events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, this may raise doubts about their integrity and honesty, such as when the auditor suspects an intention to mislead. ISA 240 provides further requirements and guidance in relation to the identification and assessment of the risks of material misstatement due to fraud.<sup>24</sup>

*Control Deficiencies Within the Entity's System of Internal Control* (Ref: Para. 15)

- A28. When the auditor identifies one or more control deficiencies with respect to management's assessment of going concern, ISA 265 requires the auditor to determine whether, individually or in combination, the deficiencies **in internal control** constitute a significant deficiency. Matters the auditor may consider in determining whether a significant deficiency **in internal control** exists related to management's assessment of going concern may include:

<sup>21</sup> ISA 315 (Revised 2019), paragraph 37

<sup>22</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

<sup>23</sup> ISA 265, *Communicating Deficiencies in Internal Control to Management and Those Charged ~~w~~With Governance*

<sup>24</sup> ISA 240, paragraphs 26-28

- Absence of a process established by management to identify, assess and address events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- Ineffective oversight by those charged with governance over management's assessment of the entity's ability to continue as a going concern.
- Evidence that management has failed to identify or disclose events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

### Evaluating Management's Assessment

*Management's Assessment and Supporting Analysis and the Auditor's Evaluation* (Ref: Para. 16)

A29. Management's assessment of the entity's ability to continue as a going concern is a key part of the auditor's evaluation whether:

- Management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- A material uncertainty exists related to events or conditions that may cast ~~a~~ significant doubt on the entity's ability to continue as a going concern.

A30. It is not the auditor's responsibility to rectify ~~the~~ lack of analysis by management. In some circumstances, however, ~~the~~ lack of detailed analysis by management to support its assessment may not prevent the auditor from concluding whether management's use of the going concern basis of accounting is appropriate in the circumstances. For example, when ~~the entity has there is a history of profitable operations and a ready access to financial resources has no liquidity concerns,~~ management may make its assessment without detailed analysis. However, in situations when, in the auditor's professional judgment, management has not performed an appropriate assessment, this may be an indicator of a deficiency in internal control in accordance with ISA 265.

Scalability (Ref: Para. 16)

A31. The nature and extent of the auditor's procedures to evaluate management's assessment of the entity's ability to continue as a going concern is a matter of the auditor's professional judgment and may vary based on the nature and circumstances of the entity and the complexity of the method used by management to assess the entity's ability to continue as a going concern.

Examples:

- The auditor's procedures to evaluate the method used by management are likely to be more extensive when the entity's business activities are more complex or susceptible to a greater degree by uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. For example, in some larger or more complex entities, management's method may require input from multiple sources of historical and forward-looking data. The method may also include significant judgments or assumptions with multiple interrelationships between them or from sources of data external to the entity. Supporting analysis may include the effects of adverse scenarios or may employ sensitivity and scenario analysis to consider alternative outcomes related to the

entity's current and expected profitability, its liquidity sources, financial obligations and the funds necessary to maintain the entity's operations for the foreseeable future.

- In other cases, management's method to assess the entity's ability to continue as a going concern may be straightforward because the business activities are simple or the business is affected to a lesser degree by uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. For example, in a smaller or less complex entity, management may determine that the most appropriate method is to prepare a simple cash flow forecast and budget or other equivalent analysis covering the appropriate assessment period.

Obtaining ~~Relevant~~ Audit Evidence ~~Whether Corroborative or Contradictory~~ in an Unbiased Manner (Ref: Para. 17)

A32. Obtaining audit evidence in an unbiased manner may involve obtaining evidence from multiple sources ~~internal and external to~~ within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of information to be used as audit evidence.

Examples:

Contradictory information may include:

- The results of the auditor's procedures to evaluate the assumptions used by management in a cash flow forecast highlight inconsistencies with assumptions used for other purposes, such as forecasts used to evaluate the recoverability of deferred tax assets or impairment of assets.
- The outcome of the analysis performed for other account balances is indicative of deteriorating financial performance (e.g., increased inventory obsolescence, delays in payments from customers, changes in customer base, increased borrowings or delays in payments to creditors) that is not adequately considered by management when making its assessment of going concern.

Corroborative information may include:

- Publicly available information from external sources, such as analysts' expectations or industry data that is consistent with forecasts and assumptions used by management in its assessment of going concern.

*Method, Assumptions and Data Used in Management's Assessment* (Ref: Para. 18)

[Moved]

A33. The method, assumptions and data used by management in its assessment of the entity's ability to continue as a going concern support the judgments made by management about the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements and whether a material uncertainty exists.

Method (Ref: Para. 18(a))

A34. Matters that may be relevant to the auditor’s evaluation of whether the method selected is appropriate in the context of the applicable financial reporting framework and, if applicable, the appropriateness of changes from the prior period may include:

- Whether management’s rationale for the method selected is appropriate;
- When management has determined that different methods result in significantly different outcomes, ~~and~~ how management has investigated the reasons for these differences; and
- Whether the changes are based on new circumstances or new information. When this is not the case, the changes may not be reasonable or may be an indicator of possible management bias (also see paragraphs A56–A59).

A35. Matters that may be relevant to the auditor’s evaluation of ~~the method related to~~ whether calculations are applied in accordance with the method used by management and are mathematically accurate may include whether management has provided adequate explanations for advanced or complex calculations or processing steps (e.g., multiple formulas or macros).

**Example:**

~~The use of automated tools and techniques (e.g., validation software tools or spreadsheet integrity tools), may assist the auditor in checking formulas or macros.~~

Assumptions (Ref: Para. 18(b))

A36. Considerations for the auditor’s evaluation regarding the assumptions on which management’s assessment is based may include:

- Management’s rationale for the selection of the assumptions;
- Whether the assumptions used are consistent with those used in other areas of the entity’s business activities, for example, business prospects, assumptions in strategy documents and assumptions used in making accounting estimates;
- Whether management considered alternative assumptions to determine the effect of changes in the assumptions on the data used in making the assessment, for example, performing a sensitivity analysis including ‘pessimistic’ and ‘optimistic’ scenarios; and
- Whether a change from prior periods in selecting an assumption is based on new circumstances or new information. When it is not the case, the change may not be reasonable or may be an indicator of possible management bias (also see paragraphs A56–A59).

Example:

The use of automated tools and techniques may assist the auditor when performing sensitivity analysis of management’s assessment of going concern to understand how outcomes are affected by changes in input variables such as discount or growth rates.



Data (Ref: Para. 18(c))

A37. Considerations for the auditor’s evaluation regarding the data on which management’s assessment is based may include whether:

- ~~Whether t~~The data used is consistent with data used elsewhere by management in the preparation of the financial statements; and
- ~~Whether m~~Modifications made to the data are appropriate and supported by management’s rationale.

Scalability (Ref: Para. 18)

A38. The nature and extent of the auditor’s procedures may vary depending on the method, assumptions and data used by management to assess the entity’s ability to continue as a going concern.

Examples:

Method

- The greater the complexity of the method used by management to assess the entity’s ability to continue as a going concern, the more likely it is that management may need to apply specialized skills or knowledge in making its assessment. ~~of the entity’s ability to continue as a going concern. When the method used by management has greater complexity, Also,~~ the auditor’s procedures to evaluate management’s method will likely be more extensive. ~~and in such circumstances it~~ may also be appropriate to involve members of the engagement team with specialized skills or knowledge to assist the auditor in applying the audit procedures or ~~evaluate~~ evaluating the results of those procedures.
- In contrast, the auditor’s procedures may be less extensive when management’s method is simpler, such as when the method used includes a simple budget, sales or cash flow forecast and an analysis of the entity’s borrowing facilities and requirements.

Assumptions

- When the assumptions used by management inherently have a high level of subjectivity (e.g., assumptions based on internally developed plans for future restructuring of the entity’s business units), the auditor’s procedures are likely to be more extensive and may include consideration of forward-looking assumptions.
- In contrast, when management uses assumptions commonly used by other marketplace participants, the auditor’s procedures to evaluate the assumptions used by management may be less extensive and may include the auditor comparing the assumptions to those obtained directly from market or a third party.

Data

- When management’s assessment of going concern includes large volumes of data from multiple sources there may be inherent complexity in evaluating the reliability of the data used and the auditor’s procedures may employ automated tools and techniques to evaluate the reliability of the data used by management.

- In contrast, when the source of the data is derived from a reputable external information source (e.g., from a central bank or statistical reports from reputable, authoritative sources) the auditor's procedures to consider the reliability of the information may not be as extensive.

*Period Beyond Management's Assessment* (Ref: Para. 19)

[Moved]

- A39. The auditor remains alert to the possibility that there may be known events, scheduled or otherwise, or conditions that will occur beyond the period of assessment used by management that may bring into question the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements. Since the degree of uncertainty associated with the outcome of an event or condition increases as the event or condition is further into the future, in considering events or conditions further in the future, the indications of going concern issues need to be significant before the auditor needs to consider taking further action. If such events or conditions are identified, the auditor may need to request management to evaluate the potential significance of the events or conditions on its assessment of the entity's ability to continue as a going concern.
- A40. Other than inquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management, which, as required by paragraph 21, would be at least twelve months from the date of approval of the financial statements.
- A41. When events or conditions have been identified in the period beyond management's assessment, depending on the nature and circumstances of such events or conditions, the auditor may consider requesting management to revise the period of assessment for example, by extending it beyond twelve months from the date of approval of the financial statements.

*Requesting Management to Make or Extend Its Assessment* (Ref: Para. 20–23)

*Period of Management's Assessment* (Ref: Para. 19)

- A42. Most financial reporting frameworks requiring an explicit management assessment about going concern specify the minimum period for which management is required to take into account all available information.<sup>25</sup> Paragraph 21 requires the auditor to request management to extend its assessment period if that period covers less than twelve months from the date of the approval of the financial statements. This requirement also applies when the applicable financial reporting framework does not specify the period to be covered by management's assessment of the entity's ability to continue as a going concern.

*Management Unwilling to Make or Extend Its Assessment* (Ref: Para. 20–21)

- A43. An unwillingness by management to make or extend its assessment may be a limitation on the audit evidence the auditor is seeking to obtain about the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements. Accordingly, the

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<sup>25</sup> For example, IAS 1 defines this as a period that should be at least, but is not limited to, twelve months from the end of the reporting period and IPSAS 1 defines this as a period that should be at least, but is not limited to, twelve months from the approval of the financial statements.

auditor is required to discuss the matter with management, and **whereif** appropriate, with those charged with governance, and inquire as to the reasons for management's decision.

- A44. Where management has chosen not to extend the period of assessment, management and those charged with governance may be able to provide additional information to support the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements. For example, this may be the case when the entity has ~~a history of profitable operations and has no liquidity concerns, reliable access to financial resources~~, and management or those charged with governance have not identified any events or conditions that may cast significant doubt beyond the period of assessment they have chosen.
- A45. If following the discussion required by paragraph 22 the auditor is unable to obtain sufficient appropriate audit evidence that supports the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, as a result of management's decision not to make or extend its assessment, the auditor may conclude that it is appropriate to:
- Revise the assessment of the risks of material misstatement and modify planned audit procedures in accordance with ISA 315 (Revised 2019).<sup>26</sup> For example, if management's decision is unreasonable in the circumstances, this may indicate a fraud risk factor that requires evaluation in accordance with ISA 240.
  - Consider management's unwillingness to make or extend its assessment as a limitation on the audit evidence the auditor has obtained. In accordance with ISA 705 (Revised), when the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor expresses a qualified opinion or disclaims an opinion.

*Information Used in Management's Assessment* (Ref: Para. 25)

- A46. Paragraphs A24, A26–A27 and A54 describe circumstances that are relevant when it may be necessary for the auditor to request management to revise its assessment.

**Evaluating Management's Plans for Future Actions** (Ref: Para. 26–27)

- A47. Management's plans for future actions may mitigate the significance of identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Such plans for future actions, may include plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.

Examples:

- The risk of an entity being unable to make its normal debt repayments may be counterbalanced by management's plans to maintain adequate cash flows by alternative means, such as by disposing of assets, rescheduling loan repayments, or obtaining additional capital.

<sup>26</sup> ISA 315 (Revised 2019), paragraph 37

- The loss of a principal supplier may be mitigated by management's actions to secure a suitable alternative source of supply.

A48. The auditor's procedures to evaluate management's plans for future actions may include:

- Inquiry of management about its reasons for a particular course of action.
- Inquiry of management about the ability to carry out a particular course of action given the entity's economic circumstances, including the implications of its existing commitments and legal, regulatory, or contractual restrictions that could affect the feasibility of management's actions.
- Inquiries of those charged with governance or others within the entity to corroborate the responses to inquiries of management.
- Inspecting information about management's history of carrying out its stated intentions.
- Inspecting written plans and other documentation, including, when applicable, formally approved budgets, authorizations or minutes.
- Inspecting records and documents for support of any planned disposals of assets.
- Inspecting reports of regulatory actions.
- Inspecting correspondence with lenders and finance providers that could affect the feasibility of management's plans to carry out further actions.
- Reviewing events occurring subsequent to the date of the financial statements and up to the date of the auditor's report to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.
- Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with third parties or related parties, including the entity's owner-manager and assessing the financial ability of such parties to provide additional funds (also see paragraphs A51–A53).
- When prospective financial information is particularly significant to management's plans for future actions, analytical procedures by comparing:
  - The prospective financial information for recent prior periods with historical results; and
  - The prospective financial information for the current period with results achieved to date.
- When management's plans for future actions are based on information from internal sources, comparing to information from reputable independent sources external to the entity.

A49. In certain circumstances the auditor may consider requesting an external confirmation<sup>27</sup> of the existence and terms of borrowing facilities between the entity and external finance providers.

Examples:

Requesting an external confirmation may be appropriate when:

<sup>27</sup> ISA 330, *The Auditor's Responses to Assessed Risks*, paragraph 19

- ~~Terms of b~~Borrowing facilities are being renewed in the assessment period.
- There are limited financial resources available to the entity beyond those required to continue its operations. ~~is marginal headroom between the financial resources required and available to the entity.~~
- The entity is dependent on borrowing facilities shortly due for renewal, for example within twelve months from the approval of the financial statements.
- There is an indication that previous renewal of borrowing facilities was agreed with difficulty, or the lender has imposed additional conditions as a prerequisite for continued financing.
- There is a significant deterioration in projected cash flows.
- The value of assets granted as security for borrowing is declining.
- The entity has breached the terms of borrowing covenants, or there are indications of potential breaches.

A50. Some finance providers may be reluctant to confirm to an entity or their auditor that borrowing facilities will be renewed. When management's plans for future action are based on arrangements to maintain or secure borrowing facilities from external finance providers, the lack of an external confirmation may be a limitation on the audit evidence the auditor is seeking to obtain. In such circumstances, the auditor may consider inquiring of external finance providers. The auditor may also need to inquire of management as to whether there are alternative strategies or sources of financing that may mitigate the significance of identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If alternative strategies or sources of financing are not available, then a material uncertainty may exist.

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

Intent (Ref: Para. 27)

A51. Where management's plans for future actions include financial support by third parties or related parties, including the entity's owner-manager, whether through the subordination of loans, commitments to maintain or provide additional funding, or guarantees, and such financial support is important to an entity's ability to continue as a going concern, the auditor may need to consider requesting written confirmation from such parties to obtain sufficient appropriate audit evidence about their intent to provide the necessary financial support. Such written confirmation may be in paper form, or by electronic or other medium<sup>28</sup> and may include:

- Terms and conditions of the commitment from those parties.
- When applicable, the legality and enforceability of the commitments.
- The period or the specific date to which the parties intend to provide the financial support.

Ability (Ref: Para. 27)

A52. The auditor's procedures to obtain sufficient appropriate audit evidence about the ability of the third parties or related parties, including the entity's owner-manager, to provide the financial support may

<sup>28</sup> ISA 505, *External Confirmations*, paragraph 6(a)

include:

- Inquiries about the business rationale for the financial support and the basis on which such support is established (e.g., entity's business plans or other forecasts).
- Inquiries about the ability to provide the financial support in a timely manner for the entity to meet its obligations.
- Inquiries of others, such as external or internal legal counsel, who may have relevant knowledge and information about the ability of third parties or related parties, including the entity's owner--manager, to provide the financial support.
- Inspecting the records of past financial support provided by the parties when such support was needed.
- Inspecting the latest available audited financial statements or other supporting information to obtain audit evidence about the financial position of the parties to provide the necessary financial support to the entity.

Scalability (Ref: Para. 27)

A53. Financial support by an entity's owner-manager is often important to the ability of smaller or less complex entities to continue as a going concern. Where a smaller or less complex entity is largely financed by a loan from the owner-manager, it may be important that these funds are not withdrawn.

Example:

The continuance of a smaller or less complex entity in financial difficulty may be dependent on the owner-manager subordinating a loan to the entity in favor of banks or other creditors, or the owner-manager supporting a loan for the entity by providing a guarantee with the owner-manager's personal assets as collateral. In such circumstances, the auditor may obtain appropriate documentary evidence of the subordination of the owner-manager's loan or of the guarantee. Where an entity is dependent on additional support from the owner-manager, the auditor ~~may evaluate~~ evaluates the owner-manager's ability to meet the obligation under the support arrangement. In addition, the auditor may request written confirmation of the terms and conditions attaching to such support and the owner-manager's intention or understanding.

**Information Becomes Available After Management Made Its Assessment** (Ref: Para. 29)

A54. When the auditor determines that additional information is related to management's assessment of the entity's ability to continue as a going concern, indicates that a material uncertainty may exist, the auditor discusses the matter with management to understand the effects of the events or conditions on management's assessment of the entity's ability to continue as a going concern and may request management to ~~revise~~ amend its assessment. For example, when the auditor is aware of a significant delay between the date of approval of the financial statements and the date the financial statements are issued, and the auditor determines that such delay believes that the information indicates that the delay may be is related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor discusses the matter with management and, depending on the facts and circumstances, may request management to revise

its going concern assessment by extending the its assessment period beyond the twelve months from the date of approval of the financial statements.

A55. ISA 560 also requires the auditor to respond appropriately to facts that become known to the auditor after the date of the auditor's report but before the date the financial statements are issued, that, had they been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report.<sup>29</sup>

### Evaluating the Audit Evidence Obtained and Concluding

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

A56. Some degree of management bias is inherent in the judgments and assumptions management uses in its assessment of the entity's ability to continue as a going concern. The susceptibility to management bias, whether intentional or unintentional, may increase with the degree of estimation uncertainty, complexity and subjectivity in management's assessment of the entity's ability to continue as a going concern.

A57. When the auditor identifies indicators of possible management bias, the auditor may need a further discussion with management and may need to reconsider whether sufficient appropriate audit evidence has been obtained that the method, assumptions and data used by management to make its assessment of the entity's ability to continue as a going concern were appropriate.

Examples:

- Management may tend to ignore observable marketplace assumptions or data and instead use their own internally-developed assumptions or select data that yields a more favorable outcome.
- There may be changes in the method or assumptions from period to period without a clear and appropriate reason for doing so.
- There may be significant influence of an owner-manager or a related party over the determination of the source of the information used in management's assessment of the entity's ability to continue as a going concern.
- Management may be overly optimistic-misrepresent or fail to consider trends and patterns in historical information when evaluating future outcomes about events or conditions that may cast significant doubt about-on the entity's ability to continue as a going concern.

A58. When such indicators are identified, this may also affect the auditor's conclusion as to whether the auditor's risk assessment and related responses remain appropriate. The auditor may also need to consider the implications for other aspects of the audit,<sup>30</sup> including the need to further question the appropriateness of management's judgments in making its assessment of the entity's ability to continue as a going concern. Further, indicators of possible management bias may affect the auditor's

<sup>29</sup> ISA 560, paragraphs 10-13

<sup>30</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraphs A133-A136

conclusion as to whether the financial statements as a whole are free from material misstatement, as discussed in ISA 700 (Revised).<sup>31</sup>

- A59. Indicators of possible management bias may also be fraud risk factors and may cause the auditor to reassess whether the auditor's risk assessment, in particular the assessment of the risks of material misstatement due to fraud, and related responses remain appropriate.<sup>32</sup> When there is intention to mislead, management bias is fraudulent in nature and the auditor may need to consider whether the bias may represent a material misstatement due to fraud.

### **Adequacy of Disclosures**

*Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists* (Ref: Para. 33, 35(b)(i))

A60. In assessing the entity's ability to continue as a going concern, management considers all relevant information about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Having considered all relevant information, including the feasibility and effectiveness of any remedial actions to mitigate the effects of those events or conditions, management may conclude that there is no material uncertainty. For example, in response to declining customer demand and uncertainties faced in the broader economic environment, management may have started executing a turnaround strategy that is demonstrating evidence of success (e.g., reducing costs, optimising cash flows and preserving liquidity, to support the entity's ability to meet its obligations and continue its operations for the foreseeable future). However, when reaching the conclusion that no material uncertainty exists involved significant judgement by management, the applicable financial reporting framework may require additional disclosures to be provided in the financial statements related to the significant judgements made by management in concluding that there is no material uncertainty.

A61. Even when no material uncertainty exists, paragraph 33 requires the auditor to evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosure about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Some financial reporting frameworks may address disclosures about:

- Principal events or conditions;
- Management's evaluation of the significance of those events or conditions in relation to the entity's ability to meet its obligations;
- Management's plans that mitigate the effect of these events or conditions;
- Significant judgments made by management as part of its assessment of the entity's ability to continue as a going concern; or
- The assumptions management makes about the future, and other sources of estimation uncertainty.

<sup>31</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 11

<sup>32</sup> ISA 240, paragraph 25



- A62. When the financial statements are prepared in accordance with a fair presentation framework, the auditor's evaluation as to whether the financial statements achieve fair presentation includes the consideration of the overall presentation, structure and content of the financial statements, and whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.<sup>33</sup> Depending on the facts and circumstances, the auditor may determine that additional disclosures are necessary to achieve fair presentation. This may be the case, for example, when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, and no disclosures ~~are explicitly~~ are specifically required by the applicable financial reporting framework regarding these circumstances.
- A63. In accordance with ISA 705 (Revised),<sup>34</sup> the auditor is required to express a modified opinion in the auditor's report when the financial statements do not provide the additional disclosures necessary to achieve fair presentation beyond disclosures specifically required by the applicable financial reporting framework.

*Adequacy of Disclosure when Events or Conditions Have Been Identified and a Material Uncertainty Exists* (Ref: Para. 34, 36(b))

- A64. Paragraph 34 requires the auditor to determine whether the financial statement disclosures address the matters set forth in that paragraph. This determination is in addition to the auditor determining whether disclosures about a material uncertainty, required by the applicable financial reporting framework, are adequate. Disclosures required by some financial reporting frameworks that are in addition to matters set forth in paragraph 34 may include disclosures about:
- Management's evaluation of the significance of the events or conditions relating to the entity's ability to meet its obligations; or
  - Significant judgments made by management as part of its assessment of the entity's ability to continue as a going concern.

Some financial reporting frameworks may provide additional guidance regarding management's consideration of disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of their occurrence.

*Considerations Specific to Public Sector Entities* (Ref: Para. 33–34, 35(b)(i), 36(b))

- A65. In the public sector, the auditor may need to have regard to public sector financial reporting disclosure requirements related to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern. For example, in certain jurisdictions public sector entities may be required to report on long-term fiscal sustainability of a public sector entity's finances ~~and disclose whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.~~

<sup>33</sup> ISA 700 (Revised), paragraph 14

<sup>34</sup> ISA 705 (Revised), paragraphs 6 and A7

**Implications for the Auditor’s Report** (Ref: Para. 35–39)

- A66. The Appendix to this ISA provides illustrations of the statements that are required to be included in the auditor’s report on the financial statements when International Financial Reporting Standards (IFRSs) is the applicable financial reporting framework. If an applicable financial reporting framework other than IFRSs is used, the illustrative statements presented in the Appendix to this ISA may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.
- A67. The statements required by paragraphs 35–37 represent the minimum information that is to be presented in the auditor’s report in each of the circumstances described. The auditor may provide additional information to supplement the required statements. The Appendix of ISA 700 (Revised)<sup>35</sup> includes illustrative wording to be included in the auditor’s report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

*Use of Going Concern Basis of Accounting Is Appropriate – No Material Uncertainty Exists* (Ref: Para. 35)

- A68. The auditor may provide additional information in the auditor’s report that would supplement the statements required by paragraphs 35(a). For example, to provide a reference to the relevant accounting policies or the notes in the financial statements.
- A69. Illustration 1 of the Appendix to this ISA is an example of an auditor’s report of an entity other than a listed entity when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management’s use of the going concern basis of accounting, ~~no events or conditions have been identified that may cast significant doubt about the entity’s ability to continue as a going concern and the auditor and~~ has concluded that no material uncertainty exists.

~~Events or Conditions Have Been Identified – No Material Uncertainty Exists~~ (Ref: Para. 21B)

- A70. For an audit of financial statements of an entity other than a listed entity, law or regulation may require the auditor to provide the ~~statements information~~ required by paragraph 35(b). The auditor also may decide that providing the ~~statements information~~ required by paragraph 35(b) for an entity other than a listed entity would be appropriate to enhance transparency for intended users of financial statements in the auditor’s report. For example, the auditor may ~~also~~ decide to do so for other entities, including those that may be of significant public interest, for example, because they have a large number and wide range of stakeholders and considering the nature and size of the business. Such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charities.
- A71. There may be circumstances when, in the auditor’s judgment, the disclosures of management’s judgments relating to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern are fundamental to the intended users’ understanding of the financial statements. Also, there may be circumstances when the auditor, in addition to ~~including a reference drawing attention to the disclosure(s) note in the financial statements that discloses the matters set out in paragraph 33~~, would consider it appropriate to draw attention to key aspects of them. In such circumstances, the ~~statements information~~ required by paragraph 35(b) can be supplemented to

<sup>35</sup> ISA 700 (Revised), paragraphs 34 and 39.

include aspects of the identified events or conditions disclosed in the financial statements, such as substantial operating losses, available borrowing facilities and possible debt refinancing, or non-compliance with loan agreements, and related mitigating factors or to draw attention to aspects of the disclosures of management's judgments.

Description of How the Auditor Evaluated Management's Assessment of Going Concern (Ref: Para. 35(b)(ii), 36(d))

A72. The amount of detail to be provided in the auditor's report to describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern is a matter of professional judgment. The auditor may describe one or more of the following elements:

- A brief overview of procedures performed;
- An indication of the outcome of the auditor's procedures;
- Aspects of the auditor's response or approach that were most relevant to the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; or
- Key observations with respect to the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

A73. In order for intended users to understand the significance of the description in the context of the audit of the financial statements as a whole, care may be necessary so that language used in the description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern:

- Relates the description directly to the specific circumstances of the entity, while avoiding generic or standardized language.
- Takes into account how the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are addressed in the related disclosure(s) in the financial statements, if any.
- Does not contain or imply discrete opinions on separate elements of the financial statements.
- When applicable, does not obscure that a material uncertainty exists.

A74. The nature and extent of the information provided by the auditor is intended to be balanced in the context of the responsibilities of the respective parties (i.e., for the auditor to provide useful information in a concise and understandable form, while not inappropriately being the provider of original information about the entity). Original information is any information about the entity that has not otherwise been made publicly available by the entity (e.g., has not been included in the financial statements or other information available at the date of the auditor's report, or addressed in other oral or written communications by management or those charged with governance, such as a preliminary announcement of financial information or investor briefings). Such information is the responsibility of the entity's management and those charged with governance.

A75. It is appropriate for the auditor to seek to avoid inappropriately providing original information about the entity in the description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. The description of how the auditor evaluated management's

assessment of the entity's ability of going concern is not usually of itself original information about the entity, as it describes the matter in the context of the audit. However, the auditor may consider it necessary to include additional information to explain aspects of the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern to enhance users' understanding. When such information is determined to be necessary by the auditor, the auditor may encourage management or those charged with governance to disclose additional information, rather than the auditor providing original information in the auditor's report. Management or those charged with governance may decide to include new or enhanced disclosures in the financial statements or elsewhere in the annual report relating to events or conditions that may cast a significant doubt on the entity's ability to continue as a going concern in light of the fact that the auditor will communicate how they were addressed in the auditor's report.

A76. Illustration 2 of the Appendix to this ISA is an example of an auditor's report of a listed entity when ~~the auditor has:~~

- ~~The auditor has~~ Obtained sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting;
- ~~Events or conditions have been identified that may cast significant doubt about the entity's ability to continue as a going concern;~~
- The auditor has concluded that no material uncertainty exists; and
- Adequate disclosure is provided in the financial statements about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

*Use of the Going Concern Basis of Accounting Is Appropriate – A Material Uncertainty Exists* (Ref: Para. 36–37)

A77. The identification of a material uncertainty is a matter that is important to intended users' understanding of the financial statements. The use of a separate section with a heading that includes reference to the fact that a material uncertainty exists alerts intended users to this circumstance.

*Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements* (Ref: Para. 36)

A78. Illustrations 3 and 4 of the Appendix to this ISA are examples of an auditor's report of an entity other than a listed entity and a listed entity, respectively, when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting but a material uncertainty exists and disclosure is adequate in the financial statements.

*Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements* (Ref: Para. 37)

A79. Illustrations 5 and 6 of the Appendix to this ISA are examples of auditor's reports for a listed entity and an entity other than a listed entity containing qualified and adverse opinions, respectively, when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting but adequate disclosure of a material uncertainty is not made in the financial statements.

*Considerations When the Auditor Disclaims an Opinion on the Financial Statements* (Ref: Para. 38)

A80. In situations involving multiple uncertainties that are significant to the financial statements as a whole, the auditor may consider it appropriate, in extremely rare circumstances, to express a disclaimer of opinion in accordance with paragraph 38. ISA 705 (Revised) provides guidance on this issue.<sup>36</sup>

A81. Paragraph 38 prohibits including separate sections on Going Concern or Material Uncertainty Related to Going Concern in the auditor's report when the auditor disclaims an opinion on the financial statements, unless the auditor is otherwise required by law or regulation, as this would be inconsistent with the disclaimer of opinion on the financial statements as a whole and may suggest that the financial statements as a whole are more credible in relation to those matters. When the auditor disclaims an opinion, ISA 705 (Revised)<sup>37</sup> requires the auditor to state in the Basis for Disclaimer of Opinion section of the auditor's report that the auditor is unable to conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Providing such a statement in the Basis for Disclaimer of Opinion section of the auditor's report provides useful information to users that may guard against inappropriate reliance on the financial statements.

*Use of Going Concern Basis of Accounting is Inappropriate* (Ref: Para. 39)

A82. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the financial statements is inappropriate, the requirement in paragraph 39 for the auditor to express an adverse opinion applies regardless of whether or not the financial statements include disclosure of the inappropriateness of management's use of the going concern basis of accounting.

A83. When the use of the going concern basis of accounting is not appropriate in the circumstances, management may be required, or may elect, to prepare the financial statements on another basis (e.g., liquidation basis). The auditor may be able to perform an audit of those financial statements provided that the auditor determines that the other basis of accounting is acceptable in the circumstances. The auditor may be able to express an unmodified opinion on those financial statements, provided there is adequate disclosure therein about the basis of accounting on which the financial statements are prepared, but may consider it appropriate or necessary to include an Emphasis of Matter paragraph in accordance with ISA 706 (Revised)<sup>38</sup> in the auditor's report to draw the intended user's attention to that alternative basis of accounting and the reasons for its use.

**Written Representations** (Ref: Para. 40)

A84. The auditor may consider it appropriate to obtain specific written representations in addition to those required in paragraph 40 in support of audit evidence obtained regarding management's plans for future actions in relation to its going concern assessment. For example, if the auditor obtains written confirmation as described in paragraph A51 from a related party, including the entity's owner-manager, the auditor may still request written representation from management as to the validity of

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<sup>36</sup> ISA 705 (Revised), paragraph 10

<sup>37</sup> [ISA 705 \(Revised\), paragraph 19](#)

<sup>38</sup> ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

the written confirmation.

**Communication with Those Charged with Governance** (Ref: Para. 41)

A85. ISA 260 (Revised)<sup>39</sup> explains that timely communication throughout the audit contributes to the achievement of robust two-way dialogue between those charged with governance and the auditor. However, the appropriate timing for communications will vary with the circumstances of the engagement, including the significance and nature of the matter, and the action expected to be taken by those charged with governance.

Example:

When events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, prompt communication with those charged with governance provides them with an opportunity to provide further clarification where necessary. This also enables those charged with governance to consider whether new or enhanced disclosures may be necessary (e.g., in relation to the mitigating factors in management's plans for future actions that are of significance to overcoming the adverse effects of the events or conditions).

A86. Communication with those charged with governance about the audit procedures performed provides an opportunity for those charged with governance to understand the auditor's work that forms the basis for the auditor's conclusions, and where applicable, the implications for the auditor's report. Examples of matters the auditor may communicate with those charged with governance include:

Examples:

- The auditor's views about the appropriateness of the disclosures in the financial statements in view of the recognition, measurement and presentation requirements of the applicable financial reporting framework.
- Whether management has applied appropriate specialized skills or knowledge or engaged appropriate experts.
- Whether the method used by management to assess the entity's ability to continue as a going concern is appropriate in the context of the nature, conditions and circumstances of the entity or the requirements of the applicable financial reporting framework.
- The auditor's views about the reasonableness of assumptions on which management's assessment is based and the degree of subjectivity involved in the development of the assumptions.
- Whether assumptions are consistent with those used for other areas of the entity's business activities and whether management has considered alternative assumptions.
- Indicators of possible management bias in management's judgments and assumptions used in its assessment of the entity's ability to continue as a going concern.

<sup>39</sup> ISA 260 (Revised), paragraph A49

- Significant deficiencies in internal control related to management's assessment of going concern (also see paragraphs A26 and A28).

~~ISA 265<sup>40</sup> requires the auditor to communicate with management and those charged with governance any significant deficiencies in internal control identified during the audit. As explained in paragraph A7A, when the auditor identifies events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management failed to identify or disclose to the auditor, the auditor may determine that there is a significant deficiency in internal control with regard to the entity's risk assessment processes.~~

- A87. In the case of an entity other than a listed entity, in addition to the required statements to be provided in the auditor's report, when appropriate, the auditor may also communicate with those charged with governance additional matters, for example, describing how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.

#### **Reporting to an Appropriate Authority Outside of the Entity** (Ref: Para. 42)

- A88. When the auditor includes a separate section with a heading "Material Uncertainty Related to Going Concern" in the auditor's report, or issues a modified opinion in respect of going concern matters, the auditor may be required by law, regulation or relevant ethical requirements to communicate these matters. The reporting may be to applicable regulatory, enforcement, supervisory or other appropriate authority outside of the entity.

Example:

In some jurisdictions, statutory requirements exist that provide early warning procedures for the auditor of a public interest entity to report to a supervisory authority when a material uncertainty exists.

- A89. Law, regulation or relevant ethical requirements may not include requirements for the auditor to report to an appropriate authority outside the entity as described in paragraph A88. Nevertheless, law, regulation or relevant ethical requirements may provide the auditor with the right to report the matter to an appropriate authority outside the entity, unless disclosure of the information is precluded by the auditor's duty of confidentiality under law, regulation or relevant ethical requirements.<sup>41</sup> In such circumstances, the auditor may also decide to discuss the matter with those charged with governance.

Example:

When auditing the financial statements of a financial institution, the auditor may have the right under law or regulation to discuss with a supervisory authority when a material uncertainty exists.

<sup>40</sup> ~~ISA 265, paragraph 9~~

<sup>41</sup> For example, paragraph R114.1(d) of the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) may permit the disclosure of confidential information when there is a legal or professional duty or right to disclose. Paragraph 114.1 A1(c)(iv) of the IESBA Code explains that there is a professional duty or right to disclose such information to comply with technical and professional standards.

A90. Factors the auditor may consider in determining whether it is appropriate to report the matter to an appropriate authority outside the entity, may include:

- Any views expressed by the regulatory, enforcement, supervisory or other appropriate authority outside of the entity.
- The actual and planned actions taken to address or mitigate the situation.

A91. Reporting going concern matters to an appropriate authority outside of the entity may involve complex considerations and professional judgments. In those circumstances, the auditor may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a regulator or professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The auditor may also consider obtaining legal advice to understand the auditor's options and the professional or legal implications of taking any particular course of action.



## Appendix

(Ref: Para. A66, A69, A76, A78–A79)

### Illustrations of Independent Auditor's Reports Related to Going Concern

- Illustration 1: An auditor's report of an entity other than a listed entity containing an unmodified opinion when ~~no events or conditions have been identified that may cast significant doubt about the entity's ability to continue as a going concern and~~ the auditor has concluded that no material uncertainty exists.
- Illustration 2: An auditor's report of a listed entity containing an unmodified opinion when ~~events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern,~~ the auditor has concluded that no material uncertainty exists and disclosure in the financial statements about the events or conditions that may cast significant doubt on the entity's ability to continue as going concern is adequate.
- Illustration 3: An auditor's report of an entity other than a listed entity containing an unmodified opinion when the auditor has concluded that a material uncertainty exists and disclosure in the financial statements is adequate.
- Illustration 4: An auditor's report of a listed entity containing an unmodified opinion when the auditor has concluded that a material uncertainty exists and disclosure in the financial statements is adequate.
- Illustration 5: An auditor's report of a listed entity containing a qualified opinion when the auditor has concluded that a material uncertainty exists and ~~that~~ the financial statements are materially misstated due to inadequate disclosure.
- Illustration 6: An auditor's report of an entity other than a listed entity containing an adverse opinion when the auditor has concluded that a material uncertainty exists and ~~the financial statements omit~~ the required disclosures relating to ~~thea~~ material uncertainty are omitted in the financial statements.

**Illustration 1 – ~~An Auditor’s Report of an Entity Other Than a Listed Entity Containing an Unmodified Opinion When No Events or Conditions Have Been Identified That May Cast Significant Doubt on the Entity’s Ability to Continue as a Going Concern and No Material Uncertainty Exists.~~**

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

- Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised)<sup>42</sup> does not apply).
- The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in ISA 210.<sup>43</sup>
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~and no events or conditions have been identified that may cast significant doubt on the entity’s ability to continue as a going concern.~~
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.<sup>44</sup>
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not yet identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

<sup>42</sup> ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>43</sup> ISA 210, *Agreeing the Terms of Audit Engagements*

<sup>44</sup> ~~ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*~~

## INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### Report on the Audit of the Financial Statements<sup>45</sup>

#### Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, (*or give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Going Concern

We have concluded that management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern.

#### Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ISA 720 (Revised) – see Illustration 1 in Appendix 2 of ISA 720 (Revised).]

#### Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>46</sup>

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<sup>45</sup> The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

<sup>46</sup> Throughout these illustrative auditor’s reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

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

**Auditor’s Responsibilities for the Audit of the Financial Statements**

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]*

**Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]*

The engagement partner on the audit resulting in this independent auditor’s report is *[name]*.

*[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]*

*[Auditor Address]*

*[Date]*

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<sup>47</sup> Paragraphs 34 and 39 of ISA 700 (Revised) require wording to be included in the auditor’s report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

**Illustration 2 – ~~An Auditor’s Report of a Listed Entity Containing an~~ Unmodified Opinion When ~~Events or Conditions Have Been Identified That May Cast Significant Doubt on the Entity’s Ability to Continue as a Going Concern But~~ No Material Uncertainty Exists and Disclosure in the Financial Statements ~~About the Events or Conditions That May Cast Significant Doubt on the Entity’s Ability to Continue as Going Concern~~ Is Adequate.**

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

- Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).
- The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in ISA 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist.
- Management has disclosed information about ~~the~~ identified events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern and the disclosures are adequate in view of the applicable financial reporting framework.
- Key audit matters have been communicated in accordance with ISA 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not yet identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

## INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### Report on the Audit of the Financial Statements<sup>48</sup>

#### Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, (*or give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Going Concern

We have concluded that management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern.

#### *Events or Conditions That May Cast Significant Doubt on the Entity’s Ability to Continue as a Going Concern*

We draw attention to Note X in the financial statements, which describes the political and economic uncertainties faced by the Company and the range of mitigating actions that have been deployed to address the effects on the Company’s business activities.

*[Description of how the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern in accordance with ISA 570 (Revised 202X).]*

~~Our opinion is not modified in respect of this matter.~~

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our

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<sup>48</sup> The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*[Description of each key audit matter in accordance with ISA 701.]*

**Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]**

*[Reporting in accordance with the reporting requirements in ISA 720 (Revised) – see Illustration 1 in Appendix 2 of ISA 720 (Revised).]*

**Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>49</sup>**

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).<sup>50</sup>]*

**Auditor’s Responsibilities for the Audit of the Financial Statements**

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]*

**Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]*

The engagement partner on the audit resulting in this independent auditor’s report is *[name]*.

*[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]*

*[Auditor Address]*

*[Date]*

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<sup>49</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

<sup>50</sup> Paragraphs 34 and 39 of ISA 700 (Revised) require wording to be included in the auditor’s report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

**Illustration 3 – An Auditor’s Report of an Entity Other Than a Listed Entity Containing an Unmodified Opinion When a Material Uncertainty Exists and Disclosure in the Financial Statements Is Adequate**

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

- **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**
- **The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in ISA 210.**
- **The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the audit are those of the jurisdiction.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists. The disclosure of the material uncertainty in the financial statements is adequate.**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor’s report and has not yet identified a material misstatement of the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**



## INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### Report on the Audit of the Financial Statements<sup>51</sup>

#### Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, (*or give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Material Uncertainty Related to Going Concern

We have concluded that managements’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate. However, we draw attention to Note X in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company’s current liabilities exceeded its total assets by YYY. As stated in Note X, these events or conditions, along with other matters as set forth in Note X, indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

#### Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]

*[Reporting in accordance with the reporting requirements in ISA 720 (Revised) – see Illustration 1 in Appendix 2 of ISA 720 (Revised).]*

#### Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>52</sup>

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<sup>51</sup> The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

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

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

### **Auditor’s Responsibilities for the Audit of the Financial Statements**

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]*

### **Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]*

The engagement partner on the audit resulting in this independent auditor’s report is *[name]*.

*[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]*

*[Auditor Address]*

*[Date]*

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<sup>53</sup> Paragraphs 34 and 39 of ISA 700 (Revised) require wording to be included in the auditor’s report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

**Illustration 4 – An Auditor’s Report of a Listed Entity Containing an Unmodified Opinion When a Material Uncertainty Exists and Disclosure in the Financial Statements Is Adequate**

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

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**
- **The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in ISA 210.**
- **The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the audit are those of the jurisdiction.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists. The disclosure of the material uncertainty in the financial statements is adequate.**
- **Key audit matters have been communicated in accordance with ISA 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor’s report and has not yet identified a material misstatement of the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

## INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### Report on the Audit of the Financial Statements<sup>54</sup>

#### Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, (*or give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Material Uncertainty Related to Going Concern

We have concluded that managements’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate. However, we draw attention to Note X in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company’s current liabilities exceeded its total assets by YYY. As stated in Note X, these events or conditions, along with other matters as set forth in Note X, indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern.

*[Description of how the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern in accordance with ISA 570 (Revised 202X).]*

Our opinion is not modified in respect of this matter.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related*

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<sup>54</sup> The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

to *Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

*[Description of each key audit matter in accordance with ISA 701.]*

**Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]**

*[Reporting in accordance with the reporting requirements in ISA 720 (Revised) – see Illustration 1 in Appendix 2 of ISA 720 (Revised).]*

**Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>55</sup>**

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

**Auditor’s Responsibilities for the Audit of the Financial Statements**

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]*

**Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]*

The engagement partner on the audit resulting in this independent auditor’s report is *[name]*.

*[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]*

*[Auditor Address]*

*[Date]*

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

<sup>56</sup> Paragraphs 34 and 39 of ISA 700 (Revised) require wording to be included in the auditor’s report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

**Illustration 5 – An Auditor’s Report of a Listed Entity Containing a Qualified Opinion When a Material Uncertainty Exists and the Financial Statements Are Materially Misstated Due to Inadequate Disclosure**

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

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**
- **The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in ISA 210.**
- **The relevant ethical requirements that apply to the audit are those of the jurisdiction.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists. Note Y to the financial statements discusses the magnitude of financing arrangements, the expiration and the total financing arrangements; however the financial statements do not include discussion on the impact or the availability of refinancing or characterize this situation as a material uncertainty.**
- **The financial statements are materially misstated due to the inadequate disclosure of the material uncertainty. A qualified opinion is being expressed because the auditor concluded that the effects on the financial statements of this inadequate disclosure are material but not pervasive to the financial statements.**
- **Key audit matters have been communicated in accordance with ISA 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor’s report and the matter giving rise to the qualified opinion on the financial statements also affects the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

## INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### Report on the Audit of the Financial Statements<sup>57</sup>

#### Qualified Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, except for the incomplete disclosure of the information referred to in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects (or give a true and fair view of), the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for Qualified Opinion

As discussed in Note Y, the Company’s financing arrangements expire and amounts outstanding are payable on March 19, 20X2. The Company has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. The financial statements do not adequately disclose this matter.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

#### Material Uncertainty Related to Going Concern

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

#### Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ISA 720 (Revised) – see Illustration 6 in Appendix 2 of ISA 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

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<sup>57</sup> The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

## **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

*[Description of each key audit matter in accordance with ISA 701.]*

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

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

## **Auditor’s Responsibilities for the Audit of the Financial Statements**

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]*

## **Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]*

The engagement partner on the audit resulting in this independent auditor’s report is *[name]*.

*[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]*

*[Auditor Address]*

*[Date]*

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

<sup>59</sup> Paragraphs 34 and 39 of ISA 700 (Revised) require wording to be included in the auditor’s report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.



**Illustration 6 – An Auditor’s Report of an Entity Other Than a Listed Entity Containing an Adverse Opinion When a Material Uncertainty Exists and Is Not Disclosed in the Financial Statements**

For purposes of the illustrative auditor’s report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**
- **The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in ISA 210.**
- **The relevant ethical requirements that apply to the audit are those of the jurisdiction.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists. The financial statements omit the required disclosures relating to the material uncertainty. An adverse opinion is being expressed because the effects on the financial statements of such omission are material and pervasive.**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor’s report and the matter giving rise to the adverse opinion on the financial statements also affects the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

## INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### Report on the Audit of the Financial Statements<sup>60</sup>

#### Adverse Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, because of the omission of the information mentioned in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly (*or do not give a true and fair view of*), the financial position of the Company as at December 31, 20X1, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for Adverse Opinion

The Company’s financing arrangements expired and the amount outstanding was payable on December 31, 20X1. The Company has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. The financial statements do not adequately disclose this fact.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

#### Material Uncertainty Related to Going Concern

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

#### Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ISA 720 (Revised) – see Illustration 7 in Appendix 2 of ISA 720 (Revised). The last paragraph of the other information section in Illustration 7 would be customized to describe the specific matter giving rise to the adverse opinion that also affects the other information.]

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<sup>60</sup> The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>61</sup>**

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).<sup>62</sup>]*

**Auditor’s Responsibilities for the Audit of the Financial Statements**

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]*

**Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]*

*[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]*

*[Auditor Address]*

*[Date]*

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<sup>61</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

<sup>62</sup> Paragraphs 34 and 39 of ISA 700 (Revised) require wording to be included in the auditor’s report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

**Exposure Draft**  
**February 2023**  
*Comments due: May 18, 2023*

*International Ethics Standards Board  
for Accountants®*

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# Proposed Revisions to the Code Addressing Tax Planning and Related Services



## About the IESBA

The [International Ethics Standards Board for Accountants®](#) (IESBA®) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting ethics standards, including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust, globally operable [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code).

The IESBA believes a single set of high-quality ethics standards enhances the quality and consistency of services provided by professional accountants, thus contributing to public trust and confidence in the accountancy profession. The IESBA sets its standards in the public interest with advice from the IESBA Consultative Advisory Group (CAG) and under the oversight of the Public Interest Oversight Board (PIOB).

The structures and processes that support the operations of the IESBA are facilitated by the International Foundation for Ethics and Audit™ (IFEATM).

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## REQUEST FOR COMMENTS

This Exposure Draft, *Proposed Revisions to the Code Addressing Tax Planning and Related Services*, was developed and approved by the IESBA.

The proposals in this Exposure Draft may be modified in light of comments received before being issued in the final pronouncement. Comments are requested by **May 18, 2023**.

Respondents are asked to submit their comments electronically through the IESBA website, using the "[submit a comment](#)" link. Please submit comments in both PDF and Word files. Also, please note that 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. Although the IESBA prefers that comments are submitted via its website, comments can also be sent to Ken Siong, IESBA Program and Senior Director, at [KenSiong@ethicsboard.org](mailto:KenSiong@ethicsboard.org).

This publication may be downloaded from the IESBA website: [www.ethicsboard.org](http://www.ethicsboard.org). The approved text is published in the English language.

# PROPOSED REVISIONS TO THE CODE ADDRESSING TAX PLANNING AND RELATED SERVICES

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## EXPLANATORY MEMORANDUM

### I. Introduction

1. This memorandum provides background to and explains the proposed revisions to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) addressing tax planning and related services.
2. The IESBA unanimously approved these proposed revisions for exposure at its [November–December 2022](#) meeting.

### II. Background

3. In recent years, much public attention has focused on the topic of tax avoidance, considering revelations such as the “Paradise Papers”<sup>1</sup> and the “Pandora Papers,”<sup>2</sup> notwithstanding the legality of the tax mitigation schemes or related transactions to achieve desired tax outcomes. Questions have been raised regarding the ethical implications for professional behavior when individual professional accountants (PAs) in business (PAIBs) and professional accountants in public practice (PAPPs) are involved in developing tax minimization strategies that are perceived as “aggressive” or when firms provide advice to their clients on such strategies.
4. The issue is of such public interest significance<sup>3</sup> that it has been discussed on the G20 agenda. Several global bodies have also focused on transparency and better disclosure of tax practices, among other policy actions. For example:
  - (a) The Organisation for Economic Cooperation and Development (OECD) launched the [Base Erosion and Profit Shifting \(BEPS\)](#) project in partnership with the G20. The project aims to ensure that the international tax rules do not facilitate shifting corporate profits away from where the actual economic activity and value creation occur. The premise for value creation is linked to the substance over form argument, which maintains that transactions in question should not be evaluated based on their formal legal structure but instead on the underlying substance of the transactions.
  - (b) The World Federation of Exchanges has included [tax transparency](#)<sup>4</sup> as a “material Environmental, Social and Governance (ESG) metric” for reporting by listed companies.
  - (c) The International Federation of Accountants (IFAC) has called on jurisdictions to share information to promote [accountability and long-term global sustainability](#).<sup>5</sup>
  - (d) The International Accounting Standards Board (IASB) has worked on [changes to tax disclosure rules](#).<sup>6</sup>

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<sup>1</sup> See, for example, the UK House of Commons [Briefing Paper](#), *The Paradise Papers* (November 2017).

<sup>2</sup> See, for example, <https://www.bbc.com/news/world-58780561>.

<sup>3</sup> For example, in its article [What could a new system for taxing multinationals look like?](#) the Economist noted that in 2015, the OECD estimated that tax avoidance robs public coffers of \$100-240 bn, or 4-10% of global corporation tax revenues a year.

<sup>4</sup> *Exchange Guidance & Recommendation* (October 2015), WFE Sustainability Working Group, World Federation of Exchanges.

<sup>5</sup> *G20 Public Trust in Tax – Surveying Public Trust in G20 Tax Systems* (January 2019), Association of Chartered Certified Accountants (ACCA), Chartered Accountants Australia and New Zealand (CA ANZ) and IFAC.

<sup>6</sup> IFRIC 23, *Uncertainty over Income Tax Treatments*.



5. In the light of these developments and pursuant to a commitment in its [Strategy and Work Plan 2019-2023](#), the IESBA formed a Working Group in September 2019 to:
  - (a) Gather an understanding of the regulatory, practice, and other developments in corporate and individual tax planning by PAIBs and PAPPs; and
  - (b) Identify and analyze the ethical implications of those developments and determine whether there is a need for enhancements to the Code or further actions.
6. In September 2021, the Working Group submitted its final [report](#) and recommendations to the IESBA. Based on this report and the related recommendations, the IESBA decided to launch a [standard-setting project](#) on the topic of tax planning and related services, establishing a Task Force to take it forward.

### III. Project Objective

7. The objective of the project is to develop a principles-based framework, leveraging the fundamental principles and the conceptual framework of the Code, to guide PAPPs' and PAIBs' ethical conduct when providing tax planning (TP) and related services (TP services) to clients, or performing TP activities for employing organizations, thereby maintaining the Code's robustness and relevance as a cornerstone of public trust in the global accountancy profession.

## IV. Consultation with Key Stakeholders

### Global Roundtables

8. In April 2022, the IESBA hosted three global virtual roundtables to bring together a broad range of stakeholders to discuss the state of play on TP and explore how the IESBA could formulate a proposed ethical framework to guide PAIBs and PAPPs when providing TP services.
9. The three roundtables were organized to cover specific regions – the Americas, EMEA,<sup>7</sup> and Asia Pacific. Excluding observers, close to 100 delegates participated in the events. They represented various stakeholder groups, including regulators and public authorities, representatives of the legal profession, national standard setters, preparers, professional accountancy organizations, firms, and academia. Observers included a member of the Public Interest Oversight Board (PIOB).
10. The input received was rich and diverse. The discussions highlighted how intertwined, complex, and multi-dimensional the ethical considerations can be in addressing TP services. Not surprisingly, the interactions between tax laws of different jurisdictions in cross-border situations were noted as an area needing particular care and sensitivity.
11. The discussions generated practical observations, which the IESBA considered in developing the proposals in this Exposure Draft (ED). Key comments or observations from the roundtables are referenced in the discussion of the significant matters included in this explanatory memorandum. The IESBA acknowledges that the way forward will need to balance the public interest benefits of the proposed revisions to the Code with considerations of global operability, practicality, and scalability for the users of the Code.

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<sup>7</sup> Europe, the Middle East, and Africa

## V. Proposed Ethical Framework

### Overarching Considerations

12. As a result of the consultation with key stakeholders, the IESBA came to the view that the Code can play a more substantive and practical role in guiding PAs' mindset and behavior when providing TP advice. This recognizes that while the Code does not and cannot override laws and regulations, ethics is broader than the law and can guide behaviors. In this regard, the notion that "what is legal is not necessarily ethical" often resonates with stakeholders and applies to TP just as much as to any other professional activities PAs may pursue. Yet, beyond the fundamental principles (FPs), conceptual framework (CF), and specific provisions aimed at safeguarding PAPPs' independence in the context of audit and other assurance engagements, the Code is silent on the topic. Additionally, from the perspective of impact, the IESBA agreed that the Code is better placed than non-authoritative material to influence and guide behavior because it is authoritative and enforceable.
13. Through its desktop research, the IESBA noted a wide variety of frameworks and guidance materials developed by various organizations in the area of TP. However, these frameworks and guidance materials are not entirely consistent with each other because they address different aspects of TP, have different objectives, or target different audiences. Outreach undertaken also indicates that some large accounting firms have developed proprietary guidelines on TP. Not all firms, however, have such guidance to assist their TP work, especially small and medium practices (SMPs), as they do not have the resources of the larger firms. Further, feedback from outreach indicates that there are stakeholder perceptions that the tax adviser community is not as closely regulated as the audit profession and therefore, generally feels less constrained in its advisory services. Accordingly, the IESBA believes it would be in the public interest to develop a unifying framework in the Code that would codify the relevant principles and best practices, thereby planting the guideposts to help PAs navigate the judgments and idiosyncrasies of TP. Such a framework would also have the benefit of providing a consistent practice baseline for all PAIBs and PAPPs globally.
14. Given the wide diversity of tax laws and regulations, the IESBA is cognizant that this framework will need to be jurisdiction-neutral (i.e., equally applicable in jurisdictions where the tax burden is high and where it is low). Likewise, the IESBA has been careful to steer clear of analyzing the merits of tax positions or strategies planned or adopted by individual or corporate taxpayers, judging the merits of the tax regimes or strategies of respective jurisdictions, or engaging in debates about tax policy.
15. Above all, the IESBA aspires to rise to the challenge of reinforcing public trust in the global accountancy profession. News headlines such as those concerning the Paradise and Pandora Papers noted above have led to public outcry about the role of consultants, including professional tax advisers, in enabling wealthy individuals and multinational corporations to engage in tax avoidance or evasion. While this project does not need to address tax evasion, which is unlawful and therefore already addressed under the Code,<sup>8</sup> the accountancy profession has not escaped being painted with a broad brush as an "enabler" of tax malfeasance. Public mistrust in professional tax advisers has risen to such a level that in some major jurisdictions, legislation is being considered to regulate tax advice and tax advisers.<sup>9</sup>

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<sup>8</sup> Section 360 for PAPPs and Section 260 for PAIBs, both dealing with responding to non-compliance with laws and regulations (NOCLAR)

<sup>9</sup> [https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13488-Tax-evasion-aggressive-tax-planning-in-the-EU-tackling-the-role-of-enablers/public-consultation\\_en?mc\\_cid=c0c64ee350&mc\\_eid=5898f32087](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13488-Tax-evasion-aggressive-tax-planning-in-the-EU-tackling-the-role-of-enablers/public-consultation_en?mc_cid=c0c64ee350&mc_eid=5898f32087)

16. The IESBA believes that developing an ethical framework in the Code to guide PAs' behaviors and actions concerning TP can go a long way towards protecting the public interest and the profession's reputation.

### **Outline of the Proposed Ethical Framework**

17. To assist PAs in exercising judgment in navigating the complexities and uncertainties of TP and deciding on the appropriate course of action in the circumstances, the IESBA proposes an ethical framework that will guide PAs to:
  - Comply with the FPs and highlight the types of threats to such compliance that might be created when performing TP activities.
  - Exhibit the mindset and behavior expected of them following the [Role and Mindset](#) provisions of the Code. This includes guidance elaborating on the relevance and applicability of behavioral concepts and principles, such as demonstrating the strength of character and having an inquiring mind, as well as expectations of PAs to promote an ethics-based culture within their employing organizations and to uphold the profession's reputation.
  - Understand the applicable tax laws and regulations, which might include the legislative intent behind the relevant laws and regulations, and, if relevant, the economic purpose and substance of the transaction.
  - Exercise professional judgment to establish a credible basis for the TP advice in circumstances of uncertainty.
  - Consult internally or externally with experts as needed, which might be part of specific actions to address identified threats. The internal or external consultations should be conducted within the professional boundaries of referring work to experts, bearing in mind the PA's responsibility to remain objective.
  - Communicate relevant matters or concerns with the individual client, management, or those charged with governance, including as part of an escalation process where necessary.
  - Evaluate the need for transparency, having regard to PAs' duty of confidentiality under the Code. This includes the circumstances in which disclosure would be appropriate or justified, when informed consent for disclosure should be obtained in the case of clients, to whom disclosure might be made and when, and the matters that might be disclosed.
  - Develop an appropriate level of documentation throughout the process to substantiate their judgments, decisions, and actions.
  - Respond to suspected non-compliance with laws and regulations when they encounter information that suggests TP might have "stepped over the line" into an actual or suspected breach of tax laws and regulations.

18. These provisions do not address the issues of tax morality,<sup>10</sup> tax fairness<sup>11</sup> and tax justice which the Board determined was outside the scope of this project.<sup>12</sup>

## VI. Scope of Proposals

### *Proposed New Sections 380 and 280*

19. The scope of the project encompasses Parts 2<sup>13</sup> and 3<sup>14</sup> of the Code, with consideration given to the need for any conforming amendments to other sections of the Code. The IESBA is of the view that the proposed ethical framework warrants new sections in Parts 2 and 3 focused on TP services or activities.
20. As part of its deliberations, the IESBA noted that the issues concerning TP services are unique compared with other professional services provided by PAs, given the sensitive nature of TP in terms of its financial impact on clients and employing organizations, the broader role of taxes in meeting jurisdictions' policy goals, and the complexity of the subject. In particular, the IESBA believes it is especially important to address the uncertainties PAs may face when providing TP services or performing TP activities, as threats to compliance with the FPs might be created in circumstances of uncertainty.
21. Therefore, the IESBA proposes that two new sections be added to the Code, namely Sections 380 and 280. In drafting these sections, the IESBA has endeavored to keep:
- Section 380 applicable to all clients, i.e., individuals and corporate clients.
  - Both sections applicable to all entities, from small- and medium-sized entities (SMEs) to large multi-national entities, regardless of whether they are public interest entities (PIEs).
- (See paragraphs 380.5 A4 and 280.5 A4.)
22. Consistent with any other provisions of the Code, the proposed provisions in Sections 380 and 280 do not override laws and regulations, including any anti-avoidance rules prevailing in a given jurisdiction.
23. Further, the IESBA notes that paragraph 100.7 A1 of the Code remains applicable, i.e., where a jurisdiction has provisions that differ from or go beyond those in the Code, PAs in that jurisdiction need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.

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<sup>10</sup> [Tax Morale](#), as defined by the OECD, is "the intrinsic motivation to pay taxes." This concept is vital to the tax system as most tax systems rely on taxpayers' voluntary compliance for the bulk of their revenues.

<sup>11</sup> In the *Wealth of Nations* (1776) (Smith, A., & Cannan, E. (2003). *The Wealth of Nations*. New York, NY. Bantam Classic), Adam Smith argued that taxation should follow the four principles of fairness, certainty, convenience, and efficiency. Tax fairness is a concept which states that the system of taxation must be equitable to the public. A fair tax system encourages a fair contribution to the cost of maintaining public utilities and infrastructure.

<sup>12</sup> According to ActionAid, tax justice is a central concern for anyone working for social justice. Tax Justice UK sees a parallel in the movement for tax justice to the movement for women's rights and labor rights as important elements of a country's social fabric. It is a belief in genuinely progressive taxation, i.e., tax systems that generate sufficient public revenue while ensuring that this revenue is fairly redistributed and focused on rebalancing economic and gender inequalities.

<sup>13</sup> Part 2 – Professional Accountants in Business

<sup>14</sup> Part 3 – Professional Accountants in Public Practice

## VII. Significant Matters

### A. Scope of Services Addressed

#### *Tax Planning*

24. The IESBA is of the view that it is important to establish a description of “tax planning” in the proposed sections to circumscribe the scope of professional services and activities that the sections would address.
25. In considering how to describe TP, the IESBA has reviewed established descriptions of TP developed by the following organizations:

Organization	Description of Tax Planning
OECD	Arrangement of a person's business and/or private affairs in order to minimize tax liability <sup>15</sup>
UK HMRC	Involves using tax reliefs for the purpose for which they were intended <sup>16</sup>
Confédération Fiscale Européenne (CFE) (Tax Advisers Europe)	Focus on delivering savings to clients using legal vehicles and financial transactions specifically established to exploit these technicalities <sup>17</sup>

26. The IESBA noted that the latter two descriptions appear limiting in scope for the purposes of this project in one way or another, or overly technical. The IESBA believes that the OECD description is closer to what should be the focus of the new sections, i.e., dealing with arrangements to minimize tax liability. The IESBA, however, considered that the term “tax efficiency” would be more neutral than “tax minimization.”
27. Accordingly, the IESBA proposes the following description:

*Tax planning comprises a broad range of [services/activities] designed to assist [a client, whether an individual or an entity/an employing organization] in structuring [the client's/the employing organization's] affairs in a tax-efficient manner.*

(See paragraphs 380.5 A1 and 280.5 A1.)

28. To facilitate consistent application, the IESBA is proposing in paragraphs 380.5 A2 and 280.5 A2 illustrative examples of TP services or activities covered under these sections.

#### *Related Services or Activities*

29. During the roundtable discussions and as part of the fact-finding work underpinning the project, the IESBA noted that there are other types of services or activities performed by PAs that are ancillary to the provision of TP services or the performance of TP activities. Such services or activities include, for example, assisting in resolving a dispute with the tax authority on a TP position that the PA or another party recommended, or preparing a tax return that reflects the position in the TP

<sup>15</sup> <https://www.oecd.org/ctp/glossaryoftaxterms.htm>

<sup>16</sup> [Tackling Tax Avoidance, Evasion, and Other Forms of Non-Compliance \(March 2019\)](#), HM Revenue & Customs, HM Treasury United Kingdom.

<sup>17</sup> [Professional Judgment in Tax Planning - An Ethics Quality Bar for All Tax Advisers](#) (June 2021), CFE Tax Advisers Europe.

arrangement. These related services or activities are based on or linked to a TP service or activity. Consistent with the indicative scope in the [project proposal](#), the IESBA proposes that such related services or activities be within the scope of the ethical framework.

30. The IESBA is therefore proposing a description of related services in paragraph 380.5 A3 and related activities in paragraph 280.5 A3. As related services or activities are scoped in, the remainder of Sections 380 and 280 do not make further reference to them.

#### *Non-Compliance with Laws and Regulations (NOCLAR)*

31. As noted above, the proposals do not address tax evasion, which is unlawful. Nevertheless, to build in the proper linkage to the NOCLAR provisions of the Code,<sup>18</sup> the IESBA proposes guidance that refers PAs to the NOCLAR sections of the Code when they become aware of tax evasion or suspected tax evasion, or other non-compliance or suspected non-compliance with tax laws and regulations by a client, management, those charged with governance (TCWG) or other individuals working for or under the direction of the client or employing organization.

(See paragraphs 380.7 A1 and 280.7 A1.)

#### **B. Role of the Professional Accountant in Acting in the Public Interest**

32. During the fact-finding phase of the project, the IESBA noted the benefits of having PAs provide TP services as they play a significant role in supporting and enhancing the effectiveness of the tax system. Indeed, TP is so important for employing organizations and clients that tax advisory services constitute a significant part of the profession's activities worldwide.<sup>19</sup>
33. As noted above, however, in recent times public concerns have risen significantly about the role tax advisers play in assisting tax avoidance by wealthy individuals and corporations, including concerns about multinational companies utilizing sophisticated TP strategies to minimize their taxes. Public mistrust of professional tax advisers has risen to such a level that legislation is being considered to regulate tax advice and tax advisers in some major jurisdictions, such as the EU.<sup>20</sup>
34. The IESBA recognized that there was a perceived challenge concerning understanding who is considered the public and the interests of those groups of stakeholders PAs are expected to serve in acting in the public interest. Questions have been posed regarding which parties are

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<sup>18</sup> Section 360 for PAPPs and Section 260 for PAIBs

<sup>19</sup> The global tax management market is expected to grow from USD 18.9 billion in 2021 to USD 32.5 billion by 2026, at a Compound Annual Growth Rate (CAGR) of 11.5% during the forecast period (<https://www.marketsandmarkets.com/PressReleases/tax-management.asp>)

<sup>20</sup> See, for example, [https://www.accountancyeurope.eu/tax/tax-policy-220107/?mc\\_cid=73311ac0b2&mc\\_eid=5898f32087](https://www.accountancyeurope.eu/tax/tax-policy-220107/?mc_cid=73311ac0b2&mc_eid=5898f32087).

captured under the notion of “public interest” – society at large, legislators, or shareholders and regulators of the capital markets?

35. Many participants across the three roundtables acknowledged that PAs providing TP services play an essential public interest role in serving employing organizations’ or clients’ interests in accordance with tax laws and regulations, i.e., by facilitating compliance with tax laws and regulations.
36. In considering what it means for a PA to act in the public interest in relation to TP, whether done for a client or an employing organization, the following factors, as shared by roundtable participants, are relevant:
- *Interpretation of the tax legislation:* roundtable participants expressed the view that the notion of a PA acting in the public interest when performing TP activities is closely linked to the approval of the tax treatment or structure by the tax authority in the particular jurisdiction. Thus, they believed that if the tax authority agrees with a particular tax treatment or structure at the time of consultation, the PA has acted in the public interest. There was also a strong view that legislators and regulators consider the public interest when they develop tax laws and regulations; therefore, it was argued that complying with those laws and regulations represents acting in the public interest.
  - *PAs’ expertise and reputational risks:* roundtable participants generally accepted that PAs play a public interest role by providing their clients and employing organizations with high-quality TP advice, leveraging their training and expertise. Participants suggested that in providing high-quality TP advice, PAs need to consider the potential risks of the TP to their clients or employing organizations and the reputational risks to the PAs – considerations that are relevant to the public interest. By providing high-quality advice, and when the client or employing organization implements this advice, the PA is perceived as improving compliance within the tax system and collection in the particular jurisdiction – an outcome that is in the public interest.
  - *Perception issues:* Participants generally believed that the very nature of PAs helping their clients or employing organizations to obey the law is an embodiment of PAs acting in the public interest. Participants generally agreed that it is a balancing act – clients or employing organizations may view that PAs should be preserving their interests rather than those of the public at large.
  - *The complexity of TP transactions given complexity in the underlying tax codes or interactions between tax codes:* Some participants believed that it may be challenging to determine what is in the public interest, especially in situations where multiple jurisdictions are involved in cross-border transactions. It was observed that each jurisdiction would perceive the public interest differently. So, it was argued that it is an impossible task to determine what would be in the public interest in these circumstances. Each jurisdiction would try to protect its sovereignty by determining its tax regime for competitive or other reasons. The reality, therefore, is that tax laws can differ quite considerably among jurisdictions.
37. Considering all the observations during the roundtable discussions, the IESBA determined not to attempt to define or describe the public interest in the abstract given the variety of considerations that may influence its meaning. The IESBA instead proposes contextual guidance in Sections 380 and 280 that explains that:
- An important part of what acting in the public interest means for PAs is for them to contribute their knowledge, skills and experience to assist clients or employing organizations meet their

TP goals while complying with tax laws and regulations. In doing so, PAs help to facilitate a more efficient and effective operation of a jurisdiction's tax system, which is in the public interest. (See paragraphs 380.4 A1 and 280.4 A1.)

- PAs play an important role in assisting clients or employing organizations in meeting their tax obligations and not seeking to circumvent them through tax evasion. However, when PAs provide such assistance, it might involve certain tax minimization arrangements that, although not prohibited by tax laws and regulations, might create threats to compliance with the FPs. (See paragraphs 380.4 A2 and 280.4 A2.)

38. The IESBA is also of the view that while the PA plays an important role in the efficient and effective operation of the tax system, it is ultimately for a court or other appropriate adjudicative body to determine whether a TP arrangement complies with the relevant tax laws and regulations. (See paragraphs 380.4 A3 and 280.4 A3.)

### **C. Responsibilities of Clients, Management, and Those Charged with Governance**

39. During the roundtable discussions, the IESBA heard from stakeholders about the importance of recognizing that management and TCWG share a fiduciary duty, as strategic and governance leaders within their organizations, to ensure that they play the equally important role of facilitating the provision of accurate information to the PA. The responsibilities of management and TCWG also extend to ensuring the organization's tax affairs are aligned with its tax strategy or policies.

40. The IESBA believes that it is important to recognize the specific responsibilities of management and TCWG of clients and employing organizations in relation to TP within the proposed ethical framework. While proposed Sections 380 and 280 specify PAs' responsibilities when providing TP services or performing TP activities, nothing in those sections detracts from the obligations of management and TCWG.

41. As such, the IESBA proposes guidance that highlights several key responsibilities of management (including individual clients, as the case may be) and TCWG. These include:

- Ensuring that the client's or employing organization's tax affairs are conducted in accordance with the relevant tax laws and regulations.
- Maintaining all the books and records and implementing the systems of internal control necessary to enable the client or employing organization to fulfill its tax compliance obligations.
- In relation to a TP service provided to a client, making available all the facts and other relevant information needed to enable the PA to perform the TP service.
- Deciding whether to accept and implement the PA's recommendation or advice on a TP arrangement.
- Submitting the client's or employing organization's tax returns and dealing with the relevant tax authorities in a timely manner.
- Making such disclosures to the relevant tax authorities as might be required by tax laws and regulations or as might be necessary to support a tax position, including details of any TP arrangements.
- Ensuring that the client's or employing organization's TP arrangements are consistent with any publicly disclosed tax strategy or policies.



(See paragraphs 380.8 A1 and 280.8 A1.)

**D. Responsibilities of All Professional Accountants**

42. Equally, the IESBA proposes that the ethical framework specify some basic responsibilities for all PAs. Notably, the IESBA observed specific circumstances that pertain to the provision of TP services.
43. First, it is important to recognize that in some jurisdictions, there are anti-avoidance laws and regulations. Accordingly, the IESBA proposes that PAs obtain an understanding of those laws and regulations and advise the client or employing organization to comply with them when providing TP services or performing TP activities. (See paragraphs R380.6 and R280.6.)
44. Secondly, the IESBA agrees with roundtable participants who commented that PAs have a responsibility to be informed and to develop the professional competence to provide TP services or to perform TP activities. This is consistent with the FP of professional competence and due care.<sup>21</sup> For the PA, it is a matter of not just adhering to the letter of the law but also being able to attest to being ethical in carrying out professional duties. In particular, a PA is expected to apply an inquiring mind and not advise on, or engage in, transactions that don't have a credible basis.<sup>22</sup>
45. To that effect, if a PAPP is requested by a client to provide a TP service, the IESBA proposes that the PA obtain an understanding of the nature of the request prior to the PA undertaking any detailed work. The IESBA proposes that this understanding include:
- (a) Knowledge and understanding of the client, its owners, management and TCWG, and its business activities;
  - (b) The purpose and circumstances of the TP arrangement; and
  - (c) The relevant tax laws and regulations.
- (See paragraph R380.9)
46. The IESBA also considered the intersection of the proposed Sections 380 and 280 with other sections of the Code in the course of PAs providing TP services or performing TP activities. The IESBA proposes guidance that refers the PAPP to relevant provisions of the Code addressing client and engagement acceptance (Section 320), second opinions as the PAPP might be engaged to provide a second opinion on a TP arrangement (Section 321), professional competence and due care (Subsection 113), and the need to exercise professional judgment and have an inquiring mind (Section 120). (See paragraphs 380.9 A1 – 380.10 A1.)
47. For a PAIB involved in performing a TP activity, the IESBA proposes a similar requirement (paragraph R280.9) as well as guidance regarding professional competence and due care, and the need to exercise professional judgment and have an inquiring mind. (See paragraph 280.10 A1.)

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<sup>21</sup> Paragraph 110.1 A1(c) of the Code states that PAs are to attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation, and act diligently and in accordance with applicable technical and professional standards.

<sup>22</sup> Paragraph 110.1 A1(e) of the Code states that PAs are to comply with the fundamental principle of professional behavior, which means complying with relevant laws and regulations, behaving in a manner consistent with the profession's responsibility to act in the public interest in all professional activities and business relationships, and avoiding any conduct that they know or should know might discredit the profession.

48. The IESBA also believes it is important that PAs explain the basis on which they recommended or otherwise advised on a TP arrangement to a client or an employing organization. Accordingly, the IESBA proposes requirements to that effect in paragraphs R380.18 and R280.18.

**E. Basis for Recommending or Otherwise Advising on a Tax Planning Arrangement**

49. During the fact-finding phase preceding the project's launch, stakeholders commented that in providing TP services, PAs might sometimes face situations where the legislative intent behind tax laws is unclear or uncertain, and the related regulations or tax forms lack clarity. To further explore this matter, the IESBA posed several questions during the roundtable discussions to understand how a PA would approach their advice to a client or employing organization if they were uncertain that the tax treatment would prevail based on the relevant tax laws and regulations. Participants were asked what specific factors the PA should consider in exercising their judgment in such circumstances.
50. In gaining an understanding of the challenges PAs face when the legislative intent behind tax laws is unclear or uncertain, the IESBA also thought it would be beneficial to identify specific scenarios to understand the extent to which PAs consider the legislature's intent, the approach PAs would take, and whether their assessment would change:
- If the situation concerns a cross-border transaction involving multiple jurisdictions.
  - If the tax strategy could be considered artificial or contrived.
51. In summary, the IESBA agrees with the observations shared by roundtable participants that PAs must take the necessary steps to establish a credible basis for their advice, taking into account, where the circumstances are unclear or uncertain, the intent of the tax legislation. In addition, participants also suggested several actions PAs can undertake to navigate situations where the legislative intent behind tax laws is unclear or uncertain:
- PAs may review rulings regarding specific cases to gather insight into what the legislature intended. It was noted that the PA's responsibility is to inform and educate the client or employing organization about the law's intent to better understand the underlying risks, if any, of the transaction.
  - As a general matter, participants commented that full transparency regarding the risks to the client or employing organization is essential. Participants shared that the threshold for success in terms of the TP arrangement being accepted by the relevant tax authorities is subject to debate in different jurisdictions. In such circumstances, participants expected that the PA would also explain the risks involved and advise the client or employing organization against taking unnecessary risks.
  - It would be important for PAs to document these risks as it was noted that jurisdictions have different definitions of what is considered a credible basis for the TP arrangement. Participants shared the view that what is a credible basis could vary from jurisdiction to jurisdiction as it depends on judgment in the circumstances. Participants agreed that it would be important for PAs to document the rationale for their judgments and decisions.
  - PAs are expected to address disclosure (subject to confidentiality) to the relevant tax authorities as an important matter.
  - Participants noted that understanding the legislature's intent is important to applying the tax legislation. In some jurisdictions, a PA is perceived to be acting negligently if the PA did not consider the legislature's intent.

## EXPLANATORY MEMORANDUM

- If the PA has reason to believe that the tax strategy does not have a credible basis and the client or the PA's immediate superior disagrees with the PA's assessment, participants commented that the PA should communicate their reservations to the client or the appropriate level of management within the employing organization. The PA might also consider seeking expert advice. If the expert advice aligns with the PA's assessment, participants agreed that the PA might need to decide whether to retain the client or resign from the engagement and client relationship if the client has not changed its position, or resign from the employing organization in the case of a PAIB.
52. In drafting the provisions, the IESBA deliberated various formulations that would convey the Board's intent for a PA to proceed with providing TP services or performing TP activities. The IESBA considered in particular using the phrase "to affirmatively advise" only when there is a credible basis. In considering this phrase, the IESBA was attempting to respond to concerns not to unduly preclude instances where the PA would be able to provide advice if the TP arrangement did not have a credible basis in the laws and regulations. For example, a client may be considering a TP arrangement that does not have a credible basis in laws and regulations and needs the accountant's advice to explore options that would have a credible basis in laws and regulations; or the client may advise the PA of a transaction that has already occurred that does not have a credible basis in laws and regulations and therefore needs advice on how to address it (e.g., complying with relevant disclosure requirements under the law).
53. However, the IESBA noted that the phrase "to affirmatively advise" would be difficult to translate. The IESBA therefore determined not to use that phrase.
54. Having regard to the above explanation, the IESBA proposes that the framework establish a principle that a PA recommend or otherwise advise on a TP arrangement to a client, or recommend or otherwise advise on a TP arrangement for an employing organization, only if the PA has determined that there is a credible basis in laws and regulations for the arrangement. (See paragraphs R380.11 and R280.11.)
55. The IESBA is of the view that it is important to emphasize that PAs are able to communicate to their client or the responsible parties within their employing organization if they have determined that a particular TP arrangement does not have a credible basis. However, there is no obligation for the PA to recommend an alternative TP arrangement. (See paragraphs 380.11 A1 and 280.11 A1.)

### *Credible Basis*

56. Recognizing that what is a credible basis in laws and regulations will vary from jurisdiction to jurisdiction, the IESBA proposes guidance setting out various actions a PA might take to establish a credible basis for the TP arrangement. (See paragraphs 380.11 A3 and 280.11 A3.) The IESBA is of the view that it would not be appropriate to ascribe a probabilistic numerical measure to a credible-basis threshold as doing so would convey a false sense of accuracy, more so given roundtable participants' feedback that there is a range of probabilities commonly understood and accepted in different jurisdictions.
57. The IESBA noted that the International Independence Standards use a "likely to prevail" threshold with respect to:
- (a) A tax service or transaction relating to marketing, planning or opining in favor of a tax treatment for an audit client and a significant purpose of which is tax avoidance (paragraph R604.4), and

- (b) Circumstances in which providing tax advisory and TP services will not create a self-review threat (paragraph 604.12 A2(c)).
58. The IESBA believes that the likely-to-prevail threshold—reinforced through Section 604 referring to the need for the audit firm to have confidence about clearing the threshold—is higher than a credible-basis threshold, given stakeholders’ heightened expectations regarding auditor independence. In the context of TP services provided to clients that are not audit clients or TP activities performed for employing organizations, the IESBA believes a credible-basis threshold sets a more appropriate bar for PAs as it calls on them to establish reasonable grounds for their TP recommendation or advice. Establishing such grounds will require professional judgment, taking into account the various actions PAs may take in the particular jurisdictional context at the time of the determination, as explained in paragraphs 380.11 A2 – A3 and 280.11 A2 – A3.

### *Cross-Border Transactions*

59. Concerning dealing with the complexities of cross-border transactions, which evolving tax laws may compound, the IESBA noted that there is a potential for polarization given that there may be conflicting considerations between different jurisdictions that PAs need to balance. Roundtable participants generally agreed that PAs who are not equipped with the necessary expertise or experience to recommend or otherwise advise a client or an employing organization in these circumstances need to rely upon the judgments of other firms or individual experts that have the appropriate expertise. PAs would then need to assume that these firms or experts will operate within a similar ethical framework as the PAs.
60. Roundtable participants also cautioned that in some jurisdictions, it is possible for a TP arrangement to have a very low likelihood of success in a court of law, yet not be deemed unacceptable such that fines and penalties would be levied in the event of an adverse ruling. Many participants were of the view that if the threshold was less than 50%, the PA should not recommend or otherwise advise the employing organization or client to proceed. This, however, was not a universal view as some participants indicated that the generally accepted threshold in their jurisdictions is lower than 50% particularly when safeguarded by transparency disclosure. For example, it was noted that in some jurisdictions, such as the U.S., it would be acceptable to recommend or otherwise advise on a TP arrangement, when a lower threshold exists since the position must be disclosed to the taxing authority.<sup>23</sup> Accordingly, there was a view that the Code should not contradict such practices.

### **F. Consideration of the Overall Tax Planning Recommendation or Advice**

61. In the last few years, there has been a significant shift in investor concerns and societal expectations for companies to pursue more sustainable business models. There is also an increasing recognition among stakeholders that there is greater value in the notion of companies pursuing “profitable solutions for the people and the planet” than in serving the interests of shareholders exclusively.
62. TP has become an essential part of the increasing focus among investors and other stakeholders on how companies measure up against Environmental, Social and Governance (ESG) performance indicators. Additionally, stakeholders have a greater awareness of what it means for a PA to act in

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<sup>23</sup> Reasonable Basis (20%): If a position is based on one or more authorities, it will generally satisfy reasonable basis even though it does not satisfy the substantial authority standard (not merely arguable or not merely a colorable claim). [Regs. Sec.1.6662-3(b)(3); Joint Committee on Taxation Interest and Penalty Study (JCS-3-99)] – AICPA Levels of Confidence for Tax Return Positions (May 2017)

the public interest, given a shift in perceptions regarding what is in the public interest. In particular, what may have been regarded as creative and skillful TP in the past may now be perceived to be “tax avoidance.”

63. The IESBA believes it is important that the proposed ethical framework include a consideration of how the overall TP recommendation or advice might be perceived by stakeholders given heightened public attention on the issue of “tax avoidance,” the fact that TP has become an important part of the calculus among investors and other stakeholders regarding how clients and employing organizations meet sustainability goals, and the need to protect the profession’s role and reputation in TP.
64. Therefore, the IESBA proposes that in addition to determining that there is a credible basis for the TP arrangement, the PA *consider* the reputational, commercial and wider economic consequences that could arise from the way stakeholders might view the arrangement – a “stand-back” test. (See paragraphs R380.12 and R280.12.) The IESBA is of the view that it is important for the PA to consider the wider consequences, as the case of [Starbucks](#) demonstrates.<sup>24</sup> The IESBA is proposing guidance explaining the meaning of reputational, commercial and wider economic consequences (see paragraphs 380.12 A1-A2 and 280.12 A1-A2).
65. The IESBA believes that this test is an important public interest element of the framework as it stimulates the PA to consider adverse consequences for the client or employing organization, as well as the relevant jurisdiction in terms of its tax base, in the light of how stakeholders might view the TP arrangement. The IESBA emphasized in its deliberations that the stand-back test is *not* about tax morality, tax justice or tax fairness. Equally, the IESBA does not intend for the PA to carry out research on the economic consequences other than giving the matter due consideration based on the PA’s general awareness and understanding of the current economic environment in the context of TP.
66. The IESBA notes that this consideration will assist the PA in complying with the FP of professional behavior. It is also consistent with paragraph 100.6 A4 of the Role and Mindset provisions that in acting in the public interest, a PA considers not only the preferences or requirements of an individual client or employing organization, but also the interests of other stakeholders when performing professional activities. Further, the test serves to support the OECD’s BEPS initiative.
67. If, having carried out the considerations set out in the stand-back test, the PA decides not to recommend or otherwise advise on a TP arrangement that the client or employing organization would like to pursue, the IESBA proposes that the PA inform the client or management and, if appropriate, those charged with governance, of this and explain the basis for the PA’s conclusion. (See paragraphs R380.13 and R280.13.)
68. The IESBA notes that the stand-back test need not be performed sequentially after determining that there is a credible basis but may be performed at the same time as carrying out such determination.

#### **G. Describing the “Gray Zone” of Uncertainty**

69. A PA might encounter circumstances giving rise to uncertainty as to whether a proposed TP arrangement will be in compliance with the relevant tax laws and regulations. Such uncertainty makes it more challenging for the PA to determine that there is a credible basis in laws and regulations for

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<sup>24</sup> The Starbucks brand suffered in light of accusations of tax avoidance as key brand metrics plummeted and negative sentiment on social media spiked. A Reuters investigation claimed that Starbucks has paid only £8.6m in UK corporation tax since launching in 1998 and none since 2009. The newswire claims that despite generating £1.2bn in revenue in the UK over the last three years, Starbucks declared no profit here, which means it is not eligible to pay corporation tax.

the TP arrangement and might, therefore, create threats to compliance with the FPs. (See paragraphs 380.15 A1 and 280.15 A1.)

70. The IESBA has noted the challenge of identifying the appropriate terminology to use to refer to this “gray zone” of uncertainty. Various international organizations have attempted to address the issue and faced challenges in developing an appropriate term that would work globally.
71. During the global roundtables, the IESBA outlined the proposition to use terms such as “uncertain” and “egregious” to describe the gray zone and a sub-zone within the gray zone. Roundtable participants shared that this proposition suggests that TP activities can be easily categorized into subgroups within the gray zone when the situation can be significantly more complex in practice. Some also viewed the term “unacceptable tax planning” as embodying an element of moral judgment that they encouraged the IESBA to avoid.
72. A few roundtable participants offered suggestions for alternative terms or approaches. A suggestion was to use the term “reasonable” instead of “appropriate” or “proper” when referring to TP. Another suggestion was to focus on describing the characteristics of the gray zone without defining it. This would recognize that the gray zone is more context-sensitive, both from the societal or broader sustainability perspective and from the client’s or employing organization’s perspective.
73. Other participants noted that uncertainty is the key issue rather than the treatment of the tax scheme itself. It was noted that the main concern for PAs is the ambiguity around tax treatments and whether these will withstand evolving public perceptions or the scrutiny of a court of law. For example, it was observed that a tax strategy that is considered proper each year might be deemed improper a few years later.
74. The IESBA concurred with the views of the roundtable participants that, given the absence of a global consensus regarding the acceptability of TP practices, it is inappropriate to seek to categorize TP arrangements within the gray zone.
75. The IESBA also agreed with stakeholders who suggested care in not merging the boundaries of ethical behavior and moral judgment with respect to PAs performing TP activities.<sup>25</sup> Instead, the IESBA believes that PAs’ involvement in TP can contribute to their broader societal role, the sustainability of businesses, and the profession’s reputation.
76. The IESBA proposes guidance setting out various circumstances that might give rise to uncertainty. (See paragraphs 380.15 A2 and 280.15 A2.) The IESBA has endeavored as far as possible to take a generic approach to describing such circumstances, recognizing that its Technology Working Group<sup>26</sup> has identified the issue of uncertainty as potentially giving rise to threats in circumstances other than when providing TP services or performing TP activities.
77. Given that circumstances of uncertainty create risks, the IESBA is proposing that the PA discuss the nature of the uncertainty with the client or with management and, if appropriate, TCWG of the employing organization. The IESBA also proposes guidance as to the purposes such a discussion would serve. (See paragraphs R380.16 – 380.16 A1, and R280.16 – 280.16 A1.)

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<sup>25</sup> The final [report](#) (September 2021) leading to the launch of the project highlighted the concept of tax morality and the OECD’s work on this topic. Tax morale, as defined by the OECD, is the intrinsic motivation to pay taxes. This is a vital aspect of the tax system as most tax systems rely on taxpayers’ voluntary compliance for the bulk of their revenues. As recommended in the report, the IESBA does not believe the Code should deal with tax morality.

<sup>26</sup> [Agenda item 7-A](#), IESBA Meeting (September 2020).

## H. Applying the Conceptual Framework to Navigate the Gray Zone and Other Tax Planning Circumstances

78. A significant part of the proposed ethical framework is the application of the CF to assist PAs in navigating the gray zone and other TP circumstances. Considering the rich feedback from the roundtable discussions, the IESBA therefore proposed practical guidance in terms of:
- Illustrative examples of the types of threats that might be created by PAs providing a TP service or performing a TP activity. (See paragraphs 380.17 A1 and 280.17 A1.)
  - Factors that are relevant in evaluating the level of such threats. (See paragraphs 380.17 A2 and 280.17 A2.)
  - Examples of actions that might eliminate such threats. (See paragraphs 380.17 A3 and 280.17 A3.)
  - Examples of actions that might be safeguards to address such threats. (See paragraphs 380.17 A4-A5 and 280.17 A4-A5.)

## I. Disagreement with Management

79. If the PA has reason to believe that the TP arrangement does not have a credible basis in laws and regulations and the client disagrees with the PA's assessment, roundtable participants commented that the PA should communicate their reservations to the client or employing organization. The PA might also consider seeking expert advice. In the case of a PAPP, if the expert advice aligns with the PA's assessment, participants agreed that the PA might need to decide whether to retain the client or resign from the engagement and client relationship if the client has not changed its position.
80. Where a client or an employing organization is perceived to be engaging in illegal activities, participants expected the PA to escalate the matter within the client or employing organization (such as to TCWG or whistleblower ombudspersons), consider reporting these activities to an appropriate authority, and consider the need to extricate themselves from the client or employment relationship.
81. Given this context, the IESBA believes that the proposed ethical framework should contain provisions to address circumstances where a disagreement arises with the management of a client regarding a TP arrangement. The IESBA therefore proposes certain required actions for a PAPP if the PA disagrees with management regarding whether a proposed TP arrangement has a credible basis in laws and regulations. If management determines to pursue the arrangement despite the PA's advice to the contrary, the IESBA proposes that the PA take steps to be disassociated from the engagement. This includes considering the need to withdraw from the engagement and the professional relationship. (See paragraphs R380.19 to R380.21.)
82. The IESBA proposes similar provisions for a PAIB in the case of disagreement with the PA's immediate superior or other responsible individual within the employing organization. The IESBA, however, recognizes that it is more likely that an escalation process would apply in the case of an employing organization. A PAIB might also have recourse to established protocols and procedures regarding how to raise ethical or other concerns internally within the employing organization. (See paragraphs R280.19 – 280.20 A2). The IESBA, however, has taken a more measured approach with respect to the PAIB in terms of disassociation from the TP arrangement, recognizing that, unlike PAPPs who generally have more than one client, the PAIB's employing organization will ordinarily be their sole employer. Accordingly, the IESBA is proposing that a PAIB might consider the need to resign from the employing organization in these circumstances.

**J. Documentation**

83. The IESBA proposes guidance highlighting the importance of documentation. The proposals guide PAs on the matters that would be beneficial to document and explain how such documentation will assist them. (See paragraphs 380.23 A1 – A2, and 280.21 A1 – A2).
84. As part of its deliberations, the IESBA considered whether to require documentation of the TP arrangement, discussions with the client or with responsible parties within the employing organization, and the PA's analysis, judgments and decisions. The IESBA considered that requiring documentation would ensure that the PA captures all the relevant facts and circumstances, and have a basis to address inquiries from, for example, tax authorities. The IESBA, however, also considered the view that documentation is a quality and risk management matter and not an ethics matter.
85. Recognizing the approach to documentation in Parts 2 and 3 of the Code, the IESBA proposes to encourage, but not require, that PAs prepare documentation. However, the IESBA believes that the reasons for documentation set out in paragraphs 380.23 A2 and 280.21 A2 are sufficiently persuasive that in the vast majority of cases, PAs will document the various matters set out in paragraphs 380.23 A1 and 280.21 A1.

**K. Tax Planning Products or Arrangements Developed by a Third Party**

86. One of the questions the IESBA posed to the roundtable participants was about the ethical considerations for a PA if the PA is contemplating introducing a client to a firm that specializes in developing TP products or arrangements for sale to the public. Participants were also asked whether the PA should disclose to the client any commission or referral fee the PA has received or will receive from the external provider.
87. As a general matter, participants agreed that if a PA is referring a client to another firm so that the client can benefit from expert advice, this is a positive outcome for the client. That said, where the PA is referring the client to a provider of packaged TP products to meet the client's needs, participants commented that the PA would need to inform the client of the PA's relationship with the external provider. Participants felt that the PA should ascertain that the provider has appropriate expertise in developing the TP product. Some participants were of the view that the PA should still be responsible for ascertaining the reliability and consequences of the particular product, including its impact on the client or the client's financial statements
88. The IESBA concurred with the roundtable participants' general observations that where a PA is referring a client to a provider of TP products or arrangements to meet the client's needs, the PA would need to inform the client of the PA's relationship with the external provider. In addition, the PA should ascertain the provider's competence in developing the TP product or arrangement. The IESBA also believes that the PA should still be responsible for ascertaining the credibility of the particular TP product or arrangement.
89. The IESBA is therefore proposing guidance in paragraph 380.22 A1 to the effect that where a PA refers a client to a third-party provider of TP products or arrangements, or where a client approaches a PA for advice on a TP product or arrangement developed by a third party, the provisions in Section 380 apply. The IESBA believes that in both situations, the responsibilities of the PA are no different than if the PA were the creator of the TP product or arrangement.
90. If the PA receives a commission or referral fee for the introduction, roundtable participants were almost unanimously of the view that the commission or referral fee should be disclosed to the client.



Participants felt that this would need to be disclosed to the client before the actual referral is made so that the client understands the full context and expectations. It was felt that such disclosure would also enable the PA to maintain objectivity.

91. Taking into account this input, the IESBA believes that the provisions in Section 330 addressing such type of remuneration are sufficient and applicable. Accordingly, the IESBA proposes the inclusion of a reference to the appropriate provisions in Section 330. (See paragraph 380.22 A2 – A3.)

**L. Multi-jurisdictional Tax Benefit**

92. During the global roundtables, an observation was raised that a client or employing organization might obtain a tax benefit from accounting for the same transaction in more than one jurisdiction. In such a case, it was suggested that while it would not be unlawful for the client or employing organization to obtain the same tax benefit twice in two different jurisdictions, there is a public interest argument for the PA to advise the client or employing organization to disclose to the relevant tax authorities the particular facts and circumstances and the tax benefits derived from the transaction in the different jurisdictions.
93. The IESBA accepted this point and proposes guidance to that effect in paragraphs 380.14 A1 – A2 and 280.14 A1 – A2.

**M. Conforming Amendments**

94. In developing an appropriate linkage to Section 321 addressing second opinions in the context of PAPPs, the IESBA noted the need for a few conforming amendments to that section to recognize that a PAPP might need to recommend or otherwise advise on the application of tax laws and regulations in the context of being approached by a client for a second opinion on a proposed TP arrangement. Section 321 currently does not contemplate a PAPP providing a second opinion on the application of laws and regulations.
95. The IESBA is therefore proposing a few conforming amendments to Section 321.

**VIII. Analysis of Overall Impact of the Proposed Changes**

96. The IESBA believes that the proposals will serve to enhance public trust in PAs providing TP services or performing TP activities by:
- (a) Promoting ethical TP conduct and practice by all PAs through a principles-based framework and guidance;
  - (b) Raising awareness about risks associated with “improper” TP to employing organizations, clients (individuals or corporate), and the profession;
  - (c) Protecting and strengthening the profession’s role and reputation in relation to TP; and
  - (d) Promoting the principles of accountability and transparency through guiding PAs’ conduct when involved in TP activities, consistent with their responsibility to act in the public interest.
97. Given the nature and extent of the proposed revisions to the Code, the IESBA believes that some of the proposals may entail significant changes to the policies and methodologies of firms and networks that carry out TP services. Such changes may result in increased costs, including with respect to the deployment of updated policies and procedures, and awareness raising and training initiatives.

98. The IESBA also expects costs related to adoption and implementation for national standard setters, professional accountancy organizations and other stakeholders, including translation where needed and education and training efforts.

## IX. Project Timetable and Effective Date

99. The indicative remaining timeline for the project is set out below. This timeline takes into account a 90-day comment period which is intended to provide stakeholders with ample time to understand the proposals in the context of their relevant jurisdictional circumstances and undertake any necessary consultations at their levels or within their networks.
100. The indicative timeline for the completion of this project is set out below.

Indicative Timing	Milestone
June 2023	<ul style="list-style-type: none"> <li>High level overview of respondents' comments to IESBA</li> </ul>
September 2023	<ul style="list-style-type: none"> <li>Discussion of significant matters raised on the ED and Task Force responses with IESBA CAG</li> <li>Full review of ED responses and first read post-exposure with IESBA</li> </ul>
December 2023	<ul style="list-style-type: none"> <li>IESBA approval of final pronouncement</li> </ul>

101. The IESBA will determine an effective date for the final provisions in due course, taking into consideration the need to allow sufficient time for adoption and implementation activities.

## X. Guide for Respondents

102. The IESBA welcomes comments on all matters addressed in this ED, but especially the matters identified in the Request for Specific Comments below. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this ED, it will be helpful for the IESBA to be made aware of this view.

### Request for Specific Comments

103. The IESBA welcomes comments on the following specific matters. Where a respondent disagrees with a proposal, it will be helpful for the respondent to explain why and to provide suggestions for other ways to address the particular matter.

*Proposed New Sections 380 and 280*

- Do you agree with the IESBA's approach to addressing TP by creating two new Sections 380 and 280 in the Code as described in Section VI of this memorandum?

*Description of Tax Planning and Related Services*

- Do you agree with IESBA's description of TP as detailed in Section VII.A above?

*Role of the PA in Acting in the Public Interest*

3. Do you agree with IESBA's proposals as explained in Section VII.B above regarding the role of the PA in acting in the public interest in the context of TP?

*Basis for Recommending or Otherwise Advising on a Tax Planning Arrangement*

4. Do you agree with the IESBA's proposals regarding the thought process for PAs to determine that there is a credible basis in laws and regulations for recommending or otherwise advising on a TP arrangement to a client or an employing organization, as described in Section VII.E above?
5. Are you aware of any other considerations, including jurisdiction-specific considerations, that may impact the proper application of the proposed provisions?

*Consideration of the Overall Tax Planning Recommendation or Advice*

6. Do you agree with the proposals regarding the stand-back test, as described in Section VII.F above?

*Describing the Gray Zone and Applying the Conceptual Framework to Navigate the Gray Zone*

7. Do you agree with the IESBA's proposals as outlined in Section VII.G above describing the gray zone of uncertainty and its relationship to determining that there is a credible basis for the TP arrangement?
8. In relation to the application of the CF as outlined in Section VII.H above, is the proposed guidance on:
  - (a) The types of threats that might be created in the gray zone;
  - (b) The factors that are relevant in evaluating the level of such threats;
  - (c) The examples of actions that might eliminate threats created by circumstances of uncertainty; and
  - (d) The examples of actions that might be safeguards to address such threats sufficiently clear and appropriate?

*Disagreement with Management*

9. Do you agree with the proposals outlined in Section VII.I above which set out the various actions PAs should take in the case of disagreement with the client or with the PA's immediate superior or other responsible individual within the employing organization regarding a TP arrangement?

*Documentation*

10. Do you agree with the IESBA's proposals regarding documentation as outlined in Section VII.J above?

*Tax Planning Products or Arrangements Developed by a Third Party*

11. Do you agree with the IESBA's proposals as detailed in Section VII.K above addressing TP products or arrangements developed by a third party provider?

*Multi-jurisdictional Tax Benefit*

12. Do you agree with the IESBA's proposals regarding a multi-jurisdiction tax benefit as described in Section VII.L above?

*Proposed Consequential and Conforming Amendments*

13. Do you agree with the proposed consequential and conforming amendments to Section 321 as described in Section VII.M above?

**Request for General Comments**

104. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:
- (a) *SMEs and SMPs* – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.
  - (b) *Tax Authorities* – The IESBA invites comments on the proposals from a regulatory perspective from members of the tax regulatory community.
  - (c) *Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.
  - (d) *Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

## EXPOSURE DRAFT

### PART 3 – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

#### PROPOSED SECTION 380

#### TAX PLANNING AND RELATED SERVICES

##### Introduction

- 380.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 380.2 Providing tax planning and related services might create self-interest, advocacy or intimidation threats to compliance with the fundamental principles, particularly the principles of integrity, objectivity, professional competence and due care, and professional behavior.
- 380.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the provision of tax planning and related services. This section also requires a professional accountant to comply with relevant tax laws and regulations when providing such services.

##### Requirements and Application Material

###### General

###### *Professional Accountants' Public Interest Role in Relation to Tax Planning Services*

- 380.4 A1 Professional accountants play an important role in tax planning by contributing their knowledge, skills and experience to assist clients in meeting their tax planning goals while complying with tax laws and regulations. In doing so, accountants help to facilitate a more efficient and effective operation of a jurisdiction's tax system, which is in the public interest.
- 380.4 A2 Clients are entitled to organize their affairs for tax planning purposes. While there are a variety of ways to achieve such purposes, clients have a responsibility to pay taxes as determined by the relevant tax laws and regulations. In this regard, professional accountants' role is to advise their clients on how best to meet their tax planning goals. In addition, accountants play an important role in assisting clients to meet their tax obligations and not seek to circumvent them through tax evasion. However, when accountants provide such assistance, it might involve certain tax minimization arrangements that, although not prohibited by tax laws and regulations, might create threats to compliance with the fundamental principles.
- 380.4 A3 It is ultimately for a court or other appropriate adjudicative body to determine whether a tax planning arrangement complies with the relevant tax laws and regulations.

###### *Description of Tax Planning and Related Services*

- 380.5 A1 Tax planning services comprise a broad range of services designed to assist a client, whether an individual or an entity, in structuring the client's affairs in a tax-efficient manner.
- 380.5 A2 Examples of tax planning services include:
- Advising an individual to structure their tax affairs to achieve investment, retirement or estate planning goals.

- Advising an individual business owner on structuring their ownership and income from the business to minimize their overall taxes.
- Advising an entity on structuring its international operations to minimize its overall taxes including through transfer pricing arrangements.
- Advising on efficient ways to utilize available tax losses.
- Advising an entity on how to structure its capital distribution strategy in a tax-efficient manner.
- Advising an entity on structuring its compensation strategy for senior executives to optimize the tax benefits.

380.5 A3 Related services are those that are based on or linked to a tax planning service, whether provided by the professional accountant or another party. Such services include, for example, assisting a client in resolving a dispute with the tax authority on a tax planning position that the accountant or another party recommended to the client, or preparing the client's tax return that reflects the position in the tax planning arrangement.

380.5 A4 This section applies regardless of the nature of the client, including whether it is a public interest entity.

## **Compliance with Laws and Regulations**

### *Anti-avoidance Laws and Regulations*

**R380.6** In some jurisdictions, laws and regulations, including those that are often referred to as anti-avoidance rules, limit or prohibit certain tax planning arrangements. A professional accountant shall obtain an understanding of those laws and regulations and advise the client to comply with them when providing tax planning services.

### *Non-compliance with Tax Laws and Regulations*

380.7 A1 If, in the course of providing tax planning services, a professional accountant becomes aware of tax evasion or suspected tax evasion, or other non-compliance or suspected non-compliance with tax laws and regulations by a client, management, those charged with governance or other individuals working for or under the direction of the client, the requirements and application material set out in Section 360 apply.

## **Responsibilities of Management and Those Charged with Governance**

380.8 A1 In relation to tax planning, management, with the oversight of those charged with governance, has a number of responsibilities, including:

- Ensuring that the client's tax affairs are conducted in accordance with the relevant tax laws and regulations.
- Maintaining all the books and records and implementing the systems of internal control necessary to enable the client to fulfill its tax compliance obligations.
- Making available all the facts and other relevant information needed to enable the professional accountant to perform the tax planning service.

- Deciding whether to accept and implement the professional accountant's recommendation or advice on a tax planning arrangement.
- Submitting the client's tax returns and dealing with the relevant tax authorities in a timely manner.
- Making such disclosures to the relevant tax authorities as might be required by tax laws and regulations or as might be necessary to support a tax position, including details of any tax planning arrangements.
- Ensuring that the client's tax planning arrangements are consistent with any publicly disclosed tax strategy or policies.

### **Responsibilities of All Professional Accountants**

**R380.9** As part of providing a tax planning service, a professional accountant shall obtain an understanding of the nature of the engagement including:

- (a) Knowledge and understanding of the client, its owners, management and those charged with governance, and its business activities;
- (b) The purpose and circumstances of the tax planning arrangement; and
- (c) The relevant tax laws and regulations.

380.9 A1 The requirements and application material in Section 320 apply with respect to client and engagement acceptance.

380.9 A2 A professional accountant might be engaged to provide a second opinion on a tax planning arrangement. In addition to the provisions in this section, the requirements and application material in Section 321 also apply in such circumstances.

380.10 A1 A professional accountant is expected to apply knowledge, expertise and due care in accordance with Subsection 113 when providing a tax planning service. The accountant is also expected to have an inquiring mind and exercise professional judgment in accordance with Section 120 when considering the specific facts and circumstances relating to the tax planning service.

### **Basis for Recommending or otherwise Advising on a Tax Planning Arrangement**

**R380.11** A professional accountant shall recommend or otherwise advise on a tax planning arrangement to a client only if the accountant has determined that there is a credible basis in laws and regulations for the arrangement.

380.11 A1 If the professional accountant determines that the tax planning arrangement does not have a credible basis in laws and regulations, paragraph R380.11 does not preclude the accountant from explaining to the client the accountant's rationale for the determination.

380.11 A2 The determination of whether there is a credible basis involves the exercise of professional judgment by the professional accountant. This determination will vary from jurisdiction to jurisdiction based on the relevant tax laws and regulations at the time.

380.11 A3 Actions that a professional accountant might take to determine that there is a credible basis in relation to a particular tax planning arrangement include:

- Reviewing the relevant facts and circumstances, including the economic purpose and substance of the arrangement.
- Assessing the reasonableness of any assumptions.
- Reviewing the relevant tax legislation.
- Reviewing legislative proceedings that discuss the intent of the relevant tax legislation.
- Reviewing relevant literature such as court decisions, law or industry journals, and tax authority rulings or guidance.
- Considering whether the basis used for the proposed arrangement is an established practice that has not been challenged by the relevant tax authorities.
- Considering how likely the proposed arrangement would be accepted by the relevant tax authorities if all the relevant facts and circumstances were disclosed.
- Consulting with experts within or outside the professional accountant's firm regarding what a reasonable interpretation of the relevant tax laws and regulations might be.
- Consulting with the relevant tax authorities, where applicable.

*Consideration of the Overall Tax Planning Recommendation or Advice*

**R380.12** In addition to determining that there is a credible basis for the tax planning arrangement, the professional accountant shall exercise professional judgment and consider the reputational, commercial and wider economic consequences that could arise from the way stakeholders might view the arrangement.

380.12 A1 The reputational and commercial consequences might relate to personal or business implications to the client or implications to the reputation of the client and the profession of a prolonged dispute with the relevant tax or other authorities. The implications to the client might involve adverse publicity, costs, fines or penalties, loss of management time over a significant period, and potential adverse consequences for the client's business.

380.12 A2 An awareness of the wider economic consequences might take into account the professional accountant's understanding of the impact of the tax planning arrangement on the tax base of the jurisdiction, or the relative impacts of the arrangement on the tax bases of multiple jurisdictions, where the client operates.

**R380.13** If, having considered the matters set out in paragraph R380.12, the professional accountant decides not to recommend or otherwise advise on a tax planning arrangement that the client would like to pursue, the accountant shall inform the client of this and explain the basis for the accountant's conclusion.

*Tax Planning Arrangements Involving Multiple Jurisdictions*

380.14 A1 A client might obtain a tax benefit from accounting for the same transaction in more than one jurisdiction, especially if there is no tax treaty between the jurisdictions. In such circumstances, while the client might be in compliance with the tax laws and regulations of each jurisdiction, the professional accountant might advise the client to disclose to the relevant tax authorities the particular facts and circumstances and the tax benefits derived from the transaction in the different jurisdictions.



380.14 A2 Relevant factors the professional accountant might consider in determining whether to advise the client to make such disclosure include:

- The significance of the tax benefits in the relevant jurisdictions.
- The likelihood that other entities in a similar circumstance to the client are taking advantage of the tax benefits.
- Stakeholders' perceptions of the client if the facts and circumstances were known to the stakeholders.

### **Circumstances of Uncertainty**

380.15 A1 A professional accountant might encounter circumstances giving rise to uncertainty as to whether a proposed tax planning arrangement will be in compliance with the relevant tax laws and regulations. Such uncertainty makes it more challenging for the accountant to determine that there is a credible basis in laws and regulations for the tax planning arrangement and might, therefore, create threats to compliance with the fundamental principles.

380.15 A2 Circumstances that might give rise to uncertainty include:

- Difficulty in establishing an adequate factual basis.
- Difficulty in establishing an adequate basis of assumptions.
- Lack of clarity in the tax laws and regulations and their interpretation, including:
  - Gaps in the tax laws and regulations.
  - Challenges to previous court rulings.
  - Conflicting tax laws and regulations in different jurisdictions in circumstances involving cross-border transactions.
  - Innovative business models not addressed by the current tax laws and regulations.
  - Recent court or tax authority rulings or positions that cast doubt on similar tax planning arrangements.
  - Complexity in interpreting or applying the tax laws and regulations from a technical or legal point of view.
  - Lack of a legal precedent, ruling or position.
- Lack of clarity regarding the economic purpose and substance of the tax planning arrangement.
- Lack of clarity about the ultimate beneficiaries of the tax planning arrangement.

**R380.16** Where there is uncertainty as to whether a proposed tax planning arrangement will be in compliance with the relevant tax laws and regulations, a professional accountant shall discuss the uncertainty with the client.

380.16 A1 The discussion serves a number of purposes, including:

- Explaining the professional accountant's assessment about how likely the relevant tax authorities are to have a view that supports the proposed tax planning arrangement where there is a lack of clarity in the interpretation of the relevant tax laws and regulations.
- Considering any assumptions that might need to be made or changed.
- Obtaining any additional information from the client that might reduce the uncertainty.
- Discussing any reputational, commercial or wider economic consequences in pursuing the proposed tax planning arrangement.
- Discussing potential courses of action to mitigate the possibility of adverse consequences for the client, including consideration of disclosure to the relevant tax authorities.

### **Potential Threats Arising from Providing a Tax Planning Service**

380.17 A1 Providing a tax planning service to a client might create a self-interest, advocacy or intimidation threat. For example:

- A self-interest threat might be created when a professional accountant has a direct financial interest in a client and the accountant is involved in designing a tax planning arrangement that has an impact on the client's financial situation.
- A self-interest or advocacy threat might be created when a professional accountant actively promotes a particular tax position a client should adopt.
- A self-interest threat might be created when a professional accountant accepts a significant fee for an engagement to develop a tax planning arrangement for which the interpretation of the relevant tax laws and regulations is uncertain or unclear.
- Self-interest and advocacy threats might be created when a professional accountant advocates a client's position in a tax planning arrangement before a tax authority when there are indications that the arrangement might not have a credible basis in laws and regulations.
- Self-interest and intimidation threats might be created when a professional accountant provides services to a client who exerts significant influence over the design of a particular tax arrangement, in a way that might influence the accountant's determination that there is a credible basis for the arrangement in laws and regulations.
- Self-interest and intimidation threats might be created when a professional accountant is threatened with dismissal from the engagement or the accountant's firm concerning the position a client is insisting on pursuing regarding a tax planning arrangement.

380.17 A2 Factors that are relevant in evaluating the level of such threats include:

- The degree of transparency of the client, including, where applicable, the identity of the ultimate beneficiaries.
- Whether the proposed tax planning arrangement has a clear economic purpose and substance based on the underlying business transaction or circumstances.

- The nature and complexity of the underlying business transaction or circumstances.
- The complexity or clarity of the relevant tax laws and regulations.
- Whether the professional accountant knows, or has reason to believe, that the proposed tax planning arrangement would be contrary to the intent of the relevant tax legislation.
- The number of jurisdictions involved and the nature of their tax regimes.
- The extent of the professional accountant's knowledge, skills and experience in the relevant tax areas.
- The significance of the potential tax savings.
- The nature and amount of the fee for the tax planning service.
- The extent to which the proposed tax planning arrangement reflects an established practice that has not been challenged by the relevant tax authorities.
- Whether there is pressure being exerted by the client or another party on the professional accountant.
- The degree of urgency in implementing the tax planning arrangement.
- The known previous behavior or reputation of the client, including its organizational culture.

380.17 A3 Examples of actions that might eliminate such threats include:

- Referring the client to an expert outside the professional accountant's firm who has the necessary knowledge, skills and experience to advise the client on the proposed tax planning arrangement.
- Advising the client to structure the tax planning arrangement so that it is consistent with an existing interpretation or ruling issued by the relevant tax authorities.
- Obtaining an advance ruling from the relevant tax or other authorities, where possible.
- Not pursuing, or advising the client not to pursue, the proposed tax planning arrangement.

380.17 A4 Examples of actions that might be safeguards to address such threats include:

- Establishing the identity of the ultimate beneficiaries.
- Advising the client to structure the tax planning arrangement so that it better aligns with the underlying economic purpose and substance.
- Advising the client to structure the tax planning arrangement based on an established practice that is currently not subject to challenge by the relevant tax authorities or is known to have been accepted by the relevant tax authorities.
- Consulting with an expert within or outside the professional accountant's firm in the relevant tax areas.
- Obtaining an opinion from an appropriately qualified professional (such as legal counsel or another professional accountant) regarding the interpretation of the relevant tax laws and regulations as applied to the particular circumstances.

- Having an appropriate reviewer, who is not otherwise involved in providing the tax planning service, review any work performed or conclusions reached by the professional accountant with respect to the tax planning arrangement.
- Having the client provide full transparency about the tax planning arrangement to the relevant tax authorities, including the goals, business and legal aspects, and ultimate beneficiaries of the tax planning arrangement.

380.17 A5 Steps a professional accountant might take to establish the identity of the ultimate beneficiaries include, for example:

- Making inquiries of management and others within the client.
- Making inquiries of others within or outside the firm who have dealt with the client, having regard to the principle of confidentiality.
- Reviewing the client's tax records, financial statements and other relevant corporate records.
- Making inquiries of registrars where the client or entities within its legal structure are incorporated concerning the relevant shareholders.
- Researching relevant public records.

### **Communication of Basis of Tax Planning Arrangement**

**R380.18** A professional accountant shall explain the basis on which the accountant recommended or otherwise advised on a tax planning arrangement to the client.

### **Disagreement with Client**

**R380.19** If the professional accountant disagrees that a tax planning arrangement that a client would like to pursue has a credible basis, the accountant shall:

- (a) Inform the client of the basis of the accountant's assessment;
- (b) Communicate to the client the potential consequences of pursuing the arrangement in the event of an adverse ruling; and
- (c) Advise the client not to pursue the arrangement.

**R380.20** If the client decides to pursue the tax planning arrangement, despite the professional accountant's advice to the contrary, the accountant shall take steps to disassociate from the engagement. In doing so, the accountant shall consider advising the client to:

- (a) Communicate internally to the appropriate level of management the details of the arrangement and the difference of views;
- (b) Make full disclosure of the arrangement to the relevant tax authorities; and
- (c) Communicate the details of the arrangement and the difference of views to the external auditor, where applicable.

380.20 A1 As part of communicating the matters set out in paragraphs R380.19 and R380.20, a professional accountant may consider it appropriate to raise the relevant matters with those charged with governance of the client.

**R380.21** In light of the client's response to the professional accountant's advice, the accountant shall consider the need to withdraw from the engagement and the professional relationship.

**Tax Planning Products or Arrangements Developed by a Third Party**

380.22 A1 There might be circumstances where a professional accountant refers a client to a third-party provider of tax planning products or arrangements, or where a client approaches the accountant for advice on a tax planning product or arrangement developed by a third party. In both circumstances, the provisions in this section apply.

*Referral Fee or Commission*

380.22 A2 A self-interest threat to compliance with the principles of objectivity and professional competence and due care might be created if a professional accountant receives a referral fee or commission by referring a client to a third-party provider of tax planning products or arrangements. The provisions in paragraphs 330.5 A1 and A2 are relevant in such circumstances.

380.22 A3 In some jurisdictions, professional accountants are prohibited by law or regulation from receiving referral fees or commissions.

**Documentation**

380.23 A1 When providing a tax planning service, a professional accountant is encouraged to document on a timely basis:

- The purpose, circumstances and substance of the tax planning arrangement.
- The identity of the ultimate beneficiaries.
- The nature of any uncertainties.
- The accountant's analysis, the courses of action considered, the judgments made, and the conclusions reached in advising the client on the proposed tax planning arrangement.
- The results of discussions with the client and other parties.
- The client's response to the accountant's advice.
- Any disagreement with the client.

380.23 A2 Preparing such documentation assists the accountant to:

- Develop the accountant's analysis of the facts, circumstances, relevant tax laws and regulations, and any assumptions made or changed.
- Record the basis of the professional judgments at the time they were made or changed.
- Support the position if the tax planning arrangement is challenged by the relevant tax authorities.
- Demonstrate that the accountant has complied with the provisions in this section.

## **PART 2 – PROFESSIONAL ACCOUNTANTS IN BUSINESS**

### **PROPOSED SECTION 280**

#### **TAX PLANNING AND RELATED ACTIVITIES**

##### **Introduction**

- 280.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 280.2 Performing tax planning and related activities might create self-interest, advocacy or intimidation threats to compliance with the fundamental principles, particularly the principles of integrity, objectivity, professional competence and due care, and professional behavior.
- 280.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the performance of tax planning and related activities. This section also requires a professional accountant to comply with relevant tax laws and regulations when performing such activities.

##### **Requirements and Application Material**

###### **General**

###### *Professional Accountants' Public Interest Role in Relation to Tax Planning Services*

- 280.4 A1 Professional accountants play an important role in tax planning by contributing their knowledge, skills and experience to assist employing organizations in meeting their tax planning goals while complying with tax laws and regulations. In doing so, accountants help to facilitate a more efficient and effective operation of a jurisdiction's tax system, which is in the public interest.
- 280.4 A2 Employing organizations are entitled to organize their affairs for tax planning purposes. While there are a variety of ways to achieve such purposes, employing organizations have a responsibility to pay taxes as determined by the relevant tax laws and regulations. In this regard, professional accountants' role is to advise their employing organizations on how best to meet their tax planning goals. In addition, accountants play an important role in assisting employing organizations meet their tax obligations and not seek to circumvent them through tax evasion. However, when accountants provide such assistance, it might involve certain tax minimization arrangements that, although not prohibited by tax laws and regulations, might create threats to compliance with the fundamental principles.
- 280.4 A3 It is ultimately for a court or other appropriate adjudicative body to determine whether a tax planning arrangement complies with the relevant tax laws and regulations.

###### *Description of Tax Planning and Related Activities*

- 280.5 A1 Tax planning activities comprise a broad range of activities designed to assist an employing organization in structuring its affairs in a tax-efficient manner.
- 280.5 A2 Examples of tax planning activities include:
- Advising management on structuring the employing organization's international operations to minimize its overall taxes, including through transfer pricing practices.

- Advising management on efficient ways to utilize available tax losses for the employing organization.
- Advising the employing organization on how to structure its capital distribution strategy in a tax-efficient manner.
- Advising management on structuring the employing organization's compensation strategy for senior executives to optimize the tax benefits for the employing organization.
- Advising a non-profit employing organization on how to structure its business to avoid breaching its non-profit status.
- Advising management on structuring the employing organization's investments to take advantage of tax incentives offered by jurisdictions or localities.

280.5 A3 Related activities are those that are based on or linked to a tax planning activity, whether provided by the professional accountant or another party. Such activities include, for example, assisting an employing organization in resolving a dispute with the tax authority on a tax planning position that the accountant or another party recommended to the employing organization, or preparing the employing organization's tax return that reflects the position in the tax planning arrangement.

280.5 A4 This section applies regardless of the nature of the employing organization, including whether it is a public interest entity.

## **Compliance with Laws and Regulations**

### *Anti-avoidance Laws and Regulations*

**R280.6** In some jurisdictions, laws and regulations, including those that are often referred to as anti-avoidance rules, limit or prohibit certain tax planning arrangements. A professional accountant shall obtain an understanding of those laws and regulations and advise the employing organization to comply with them when providing tax planning activities.

### *Non-compliance with Tax Laws and Regulations*

280.7 A1 If, in the course of performing a tax planning activity, a professional accountant becomes aware of tax evasion or suspected tax evasion, or other non-compliance or suspected non-compliance with tax laws and regulations by an employing organization, management, those charged with governance or other individuals working for or under the direction of the employing organization, the requirements and application material set out in Section 260 apply.

## **Responsibilities of Management and Those Charged with Governance of the Employing Organization**

280.8 A1 In relation to tax planning, management, with the oversight of those charged with governance, has a number of responsibilities, including:

- Ensuring that the employing organization's tax affairs are conducted in accordance with the relevant tax laws and regulations.

- Maintaining all the books and records and implementing the systems of internal control necessary to enable the employing organization to fulfill its tax compliance obligations.
- Deciding whether to accept and implement the professional accountant's recommendation or advice on a tax planning arrangement.
- Submitting the employing organization's tax returns and dealing with the relevant tax authorities in a timely manner.
- Making such disclosures to the relevant tax authorities as might be required by tax laws and regulations or as might be necessary to support a tax position, including details of any tax planning arrangements.
- Ensuring that the employing organization's tax planning arrangements are consistent with any publicly disclosed tax strategy or policies.

### **Responsibilities of All Professional Accountants**

**R280.9** As part of performing a tax planning activity for an employing organization, the professional accountant shall obtain an understanding of the nature of the tax planning activity, including:

- (a) The purpose and circumstances of the tax planning arrangement; and
- (b) The relevant tax laws and regulations.

280.10 A1 A professional accountant is expected to apply knowledge, expertise and due care in accordance with Subsection 113 when performing a tax planning activity. The accountant is also expected to have an inquiring mind and exercise professional judgment in accordance with Section 120 when considering the specific facts and circumstances relating to the tax planning activity.

### **Basis for Recommending or Otherwise Advising on a Tax Planning Arrangement**

**R280.11** A professional accountant shall recommend or otherwise advise on a tax planning arrangement for an employing organization only if the accountant has determined that there is a credible basis in laws and regulations for the arrangement.

280.11 A1 If the professional accountant determines that the tax planning arrangement does not have a credible basis in laws and regulations, paragraph R280.11 does not preclude the accountant from explaining to the accountant's immediate superior or other responsible individual within the employing organization the accountant's rationale for the determination.

280.11 A2 The determination of whether there is a credible basis involves the exercise of professional judgment. This determination will vary from jurisdiction to jurisdiction based on the relevant tax laws and regulations at the time.

280.11 A3 Actions that a professional accountant might take to determine that there is a credible basis in relation to a particular tax planning arrangement include:

- Reviewing the relevant facts and circumstances, including the economic purpose and substance of the arrangement.
- Assessing the reasonableness of any assumptions.
- Reviewing the relevant tax legislation.



- Reviewing legislative proceedings that discuss the intent of the relevant tax legislation.
- Reviewing relevant literature such as court decisions, law or industry journals, and tax authority rulings or guidance.
- Considering whether the basis used for the proposed arrangement is an established practice that has not been challenged by the relevant tax authorities.
- Considering how likely the proposed arrangement would be accepted by the relevant tax authorities if all the relevant facts and circumstances were disclosed.
- Consulting with experts within or outside the employing organization regarding what a reasonable interpretation of the relevant tax laws and regulations might be.
- Consulting with the relevant tax authorities, where applicable.

*Consideration of the Overall Tax Planning Recommendation or Advice*

**R280.12** In addition to determining that there is a credible basis for the tax planning arrangement, the professional accountant shall exercise professional judgment and consider the reputational, commercial and wider economic consequences that could arise from the way stakeholders might view the arrangement.

280.12 A1 The reputational and commercial consequences might relate to personal or business implications to the employing organization or implications to the reputation of the employing organization and the profession of a prolonged dispute with the relevant tax or other authorities. The implications to the employing organization might involve adverse publicity, costs, fines or penalties, loss of management time over a significant period, and potential adverse consequences for the employing organization.

280.12 A2 An awareness of the wider economic consequences might take into account the professional accountant's understanding of the impact of the tax planning arrangement on the tax base of the jurisdiction, or the relative impacts of the arrangement on the tax bases of multiple jurisdictions, where the employing organization operates.

**R280.13** If, having considered the matters set out in paragraph R280.12, the professional accountant decides not to recommend or otherwise advise on a tax planning arrangement that the employing organization would like to pursue, the accountant shall inform management and, if appropriate, those charged with governance, of this and explain the basis for the accountant's conclusion.

*Tax Planning Arrangements Involving Multiple Jurisdictions*

280.14 A1 An employing organization might obtain a tax benefit from accounting for the same transaction in more than one jurisdiction, especially if there is no tax treaty between the jurisdictions. In such circumstances, while the employing organization might be in compliance with the tax laws and regulations of each jurisdiction, the professional accountant might advise management to disclose to the relevant tax authorities the particular facts and circumstances and the tax benefits derived from the transaction in the different jurisdictions.

280.14 A2 Relevant factors the professional accountant might consider in determining whether to make such disclosure include:

- The significance of the tax benefit in the relevant jurisdictions.

- Stakeholders' perceptions of the employing organization if the facts and circumstances were known to the stakeholders.

### **Circumstances of Uncertainty**

280.15 A1 A professional accountant might encounter circumstances giving rise to uncertainty as to whether a proposed tax planning arrangement will be in compliance with the relevant tax laws and regulations. Such uncertainty makes it more challenging for the accountant to determine that there is a credible basis in laws and regulations for the tax planning arrangement and might therefore create threats to compliance with the fundamental principles.

280.15 A2 Circumstances that might give rise to uncertainty include:

- Difficulty in establishing an adequate factual basis.
- Difficulty in establishing an adequate basis of assumptions.
- Lack of clarity in the tax laws and regulations and their interpretation, including:
  - Gaps in the tax laws and regulations.
  - Challenges to previous court rulings.
  - Conflicting tax laws and regulations in different jurisdictions in circumstances involving cross-border transactions.
  - Innovative business models not addressed by the current tax laws and regulations.
  - Recent court or tax authority rulings or positions that cast doubt on similar tax planning arrangements.
  - Complexity in interpreting or applying the tax laws and regulations from a technical or legal point of view.
  - Lack of a legal precedent, ruling or position.
- Lack of clarity regarding the economic purpose and substance of the tax planning.
- Lack of clarity about the ultimate beneficiaries of the tax planning arrangement.

**R280.16** Where there is uncertainty as to whether a proposed tax planning arrangement will be in compliance with the relevant tax laws and regulations, a professional accountant shall discuss the uncertainty with management and, if appropriate, those charged with governance.

280.16 A1 The discussion serves a number of purposes, including:

- Explaining the professional accountant's assessment about how likely the relevant tax authorities are to have a view that supports the proposed tax planning arrangement where there is a lack of clarity in the interpretation of the relevant tax laws and regulations.
- Considering any assumptions that might need to be made or changed.
- Obtaining any additional information from management and, if appropriate, those charged with governance that might reduce the uncertainty.

- Discussing any reputational, commercial or wider economic consequences in pursuing the proposed tax planning arrangement.
- Discussing potential courses of action to mitigate the possibility of adverse consequences for the employing organization, including consideration of disclosure to the relevant tax authorities.

### **Potential Threats Arising from Performing a Tax Planning Activity**

280.17 A1 Performing a tax planning activity for an employing organization might create a self-interest, advocacy or intimidation threat. For example:

- A self-interest threat might be created when a professional accountant's career advancement prospects depend on developing a creative tax planning arrangement for which the interpretation of the relevant tax laws and regulations is unclear.
- A self-interest threat might be created when a professional accountant participates in an incentive compensation scheme impacted by the accountant's design of a tax planning arrangement.
- Self-interest and advocacy threats might be created when a professional accountant advocates an employing organization's position in a tax planning arrangement before a tax authority, when there are indications that the arrangement might not have a credible basis in laws and regulations.
- Self-interest and intimidation threats might be created when a dominant owner or leader of the employing organization exerts significant influence over the design of a particular tax arrangement, in a way that might influence the accountant's determination that there is a credible basis in laws and regulations.
- Self-interest and intimidation threats might be created when a professional accountant faces potential dismissal over the position the employing organization is insisting on pursuing regarding a tax planning arrangement.

280.17 A2 Factors that are relevant in evaluating the level of such threats include:

- The degree of transparency regarding the underlying business transaction or circumstances, including, where applicable, the identity of the ultimate beneficiaries.
- Whether the proposed tax planning arrangement has a clear economic purpose and substance based on the underlying business transaction or circumstances.
- The nature and complexity of the underlying business transaction or circumstances.
- The complexity or clarity of the relevant tax laws and regulations.
- Whether the professional accountant knows, or has reason to believe, that the proposed tax planning arrangement would be contrary to the intent of the relevant tax legislation.
- The number of jurisdictions involved and the nature of their tax regimes.
- The extent of the professional accountant's knowledge, skills and experience in the relevant tax areas.
- The significance of the potential tax savings.

- The nature and significance of any incentives offered to the professional accountant to develop the proposed arrangement.
- The extent to which the proposed tax planning arrangement reflects an established practice that has not been challenged by the relevant tax authorities.
- Whether there is pressure being exerted on the professional accountant.
- The degree of urgency in implementing the tax planning arrangement.
- The organizational culture of the employing organization.

280.17 A3 Examples of actions that might eliminate such threats include:

- Advising the employing organization to structure the tax planning arrangement so that it is consistent with an existing tax interpretation or ruling issued by the relevant tax authorities.
- Obtaining an advance ruling from the relevant tax or other authorities, where possible.
- Advising management not to pursue the proposed tax planning arrangement.

280.17 A4 Examples of actions that might be safeguards to address such threats include:

- Establishing the identity of the ultimate beneficiaries.
- Advising the employing organization to structure the tax planning arrangement so that it better aligns with the underlying economic purpose and substance.
- Advising the employing organization to structure the tax planning arrangement based on an established practice that is currently not subject to challenge by the relevant tax authorities or is known to have been accepted by the relevant tax authorities.
- Engaging an internal or external expert who has the necessary knowledge, skills and experience to advise the employing organization on the proposed tax planning arrangement.
- Obtaining an opinion from an appropriately qualified professional (such as legal counsel or another professional accountant) regarding the interpretation of the relevant tax laws and regulations as applied to the particular circumstances.
- Having a tax expert, who is not otherwise involved in the tax planning activity, review any work performed or conclusions reached by the professional accountant with respect to the tax planning arrangement.
- Having the employing organization provide full transparency about the tax planning arrangement to the relevant tax authorities, including the goals, business and legal aspects, and ultimate beneficiaries of the tax planning arrangement.

280.17 A5 Steps a professional accountant might take to establish the identity of the ultimate beneficiaries include, for example:

- Making inquiries of management and others within or outside the employing organization having regard to the principle of confidentiality.
- Reviewing the employing organization's tax records, financial statements and other relevant corporate records.

- Researching relevant public records.

### **Communication of Basis of Tax Planning Arrangement**

**R280.18** A professional accountant shall explain to management and, if appropriate, those charged with governance the basis on which the accountant recommended or otherwise advised on a tax planning arrangement to the employing organization.

### **Disagreement on the Tax Planning Arrangement**

**R280.19** If the professional accountant disagrees with the accountant's immediate superior or other responsible individual within the employing organization that a tax planning arrangement that the employing organization would like to pursue has a credible basis, the accountant shall:

- (a) Inform the immediate superior or other responsible individual within the employing organization, and if appropriate, those charged with governance, of the accountant's assessment;
- (b) Communicate to them the potential consequences of pursuing the arrangement in the event of an adverse ruling; and
- (c) Advise them not to pursue the arrangement.

**R280.20** If the immediate superior or other responsible individual within the employing organization decides to pursue the tax planning arrangement despite the professional accountant's advice to the contrary, the accountant shall take steps to disassociate from the arrangement. In doing so, the accountant shall consider:

- (a) Taking steps to have the details of the arrangement and the difference of views communicated with the next higher level of authority within the employing organization and, if appropriate, those charged with governance;
- (b) Advising the employing organization to make full disclosure of the arrangement to the relevant tax authorities; and
- (c) Communicating the details of the arrangement and the difference of views to the employing organization's external auditor.

280.20 A1 In light of the response of the immediate superior or other responsible individual within the employing organization to the professional accountant's advice, the accountant might also consider the need to resign from the employing organization.

280.20 A2 Many employing organizations have established protocols and procedures regarding how to raise ethical or other concerns internally. These protocols and procedures include, for example, an ethics policy or internal whistle-blowing mechanism. Such protocols and procedures might allow matters to be reported anonymously through designated channels.

### **Documentation**

280.21 A1 When performing a tax planning activity, a professional accountant is encouraged to document on a timely basis:

- The purpose, circumstances and substance of the tax planning arrangement.
- The identity of the ultimate beneficiaries.

- The nature of any uncertainties.
- The accountant's analysis, the courses of action considered, the judgments made, and the conclusions reached in advising the employing organization on developing the proposed tax planning arrangement.
- The results of discussions with the accountant's immediate superior and appropriate levels of management, those charged with governance and other parties.
- The response of the accountant's immediate superior, management and, where applicable, those charged with governance to the accountant's advice.
- Any disagreement with the accountant's immediate superior, management and, where applicable, those charged with governance.

280.21 A2 Preparing such documentation assists the accountant to:

- Develop the accountant's analysis of the facts, circumstances, relevant tax laws and regulations and any assumptions made or changed.
- Record the basis of the professional judgments at the time they were made or changed.
- Support the position if the tax planning arrangement is challenged by the relevant tax authorities.
- Demonstrate that the accountant has complied with the provisions in this section.

**PROPOSED CONFORMING AMENDMENTS TO THE CODE**  
**(Marked-up against extant Code)**

**PART 3 – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

**SECTION 321**

**SECOND OPINIONS**

...

**Requirements and Application Material**

**General**

...

321.3 A1 A professional accountant might be asked to provide a second opinion on the application of laws and regulations, such as tax laws and regulations, and accounting, auditing, reporting or other standards or principles to (a) specific circumstances, or (b) transactions by or on behalf of a company or an entity that is not an existing client. A threat, for example, a self-interest threat to compliance with the principle of professional competence and due care, might be created if the second opinion is not based on the same facts that the existing or predecessor accountant or other service provider had, or is based on inadequate evidence.

....

321.3 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- With the client's permission, obtaining information from the existing or predecessor accountant or other service provider.
- Describing the limitations surrounding any opinion in communications with the client.
- Providing the existing or predecessor accountant or other service provider with a copy of the opinion.

*When Permission to Communicate is Not Provided*

**R321.4** If an entity seeking a second opinion from a professional accountant will not permit the accountant to communicate with the existing or predecessor accountant or other service provider, the accountant shall determine whether the accountant may provide the second opinion sought.

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