Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

NZAuASB Board Meeting Agenda

Thursday, 17 October 2024
9:00 am to 5.00 pm, Generator, Auckland.

Apologies: None

Est.Time	Item	Topic	Objective		Page	Supplementary
	B: PUBLIC SESSION					
11am	**4**	**Board Management**				
	4.1	Action list	Approve	Paper	3	
	4.2	Chair's report	Note	Verbal		
	4.3	AUASB Update	Note	Verbal		
11:05am	**5**	**NZAuASB workplan**			MP	
	5.1	2024/25 Prioritisation schedule	Consider	Paper	4	
	5.2	IAASB meeting report	Note	Paper		3
	5.3	IESBA update	Note	Paper		11
	5.4	XRB environmental scan	Note	Paper		16
11:30am	**6**	**ISA for Less Complex Entities**			BM	
	6.1	Summary paper	Note	Paper	8	
	6.2	Issues paper	Consider	Paper	11	
	6.3	Consultation Paper	Approve	Paper	25	
	6.4	Exposure Draft	Approve	Paper		22
12:45pm	*Lunch*					
1:15pm	**7**	**Review Standard on Service Performance Information**			LT	
	7.1	Summary Paper	Note	Paper	44	
	7.2	Issues paper	Consider	Paper	46	
	7.3	Updated draft standard		Paper		203
2pm	**8**	**GHG assurance**			AH	
	8.1	Summary paper	Note	Paper	54	
	8.2	Snapshot	Note	Paper		242
	8.3	GHG guidance plan	Consider	Paper	56	
2:15pm	**9**	**Audit quality measures**				
	9.1	Summary paper	Note	Paper	59	
	9.2	Audit quality indicators	Note	Paper	61	
	9.3	Measuring audit quality	Note	Paper	66	
3:15pm	*Afternoon Tea*					
3:30pm	**10**	**Presentation from Mark Gough Capitals Coalition**			KT	
	10.1	Summary Paper			71	

Est.Time	Item	Topic	Objective		Page	Supplementary
4:00	**11**	**Sustainability assurance**			KT	
	11.1	Summary Paper	Note	Paper	72	
	11.2	Issues	Consider	Paper	74	
	11.3	ISSA 5000 - Requirements				245
	11.4	ISSA 5000 – Application Material				299
4:30pm	**12**	**Modified Auditor's reports**			BM	
	12.1	Summary paper	Note	Paper	77	
	12.2	Application of Modified Audit Report Policy Memo	Note	Paper	79	
	12.3	XRB Policy on Modified Audit Reports	Note	Paper		452
5pm	**Closing**					

Next Meeting:
5 December (virtual)

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

DATE: 27 September 2024

TO: NZAuASB

FROM: Greg Schollum, IAASB member
Misha Pieters, Technical Advisor to Greg and Director Assurance

SUBJECT: **September 2024 IAASB meeting**

Action: To **NOTE** the update from the IAASB September meeting and **CONSIDER** the areas of high strategic importance arising.

Areas of high strategic importance to the XRB

1. Key areas of strategic importance arising are summarised below. The full meeting report is in the appendix.

Project	Timing	Strategic Priority for XRB
Sustainability assurance	ISSA 5000 was approved, effective for periods beginning on or after December 2026.	High. It is expected that ISSA 5000[1] will be issued in January 2025. The XRB will need to determine whether to adopt ISSA 5000 in New Zealand. We understand that Australia intends to mandate the early adoption of ISSA 5000.
Going Concern	The IAASB is on track to approve the revised standard in December 2024.	Medium. The combined impact of the two projects on the auditor's report will be of interest to the XRB. The IAASB will require enhanced transparency in a separate section on going concern. The XRB may consider adjusting the reporting requirements to align reporting and audit terminology and approach. The IAASB will require enhanced transparency on fraud related matters, using key audit matters, but agreed to remove the proposed requirement to state where there are no fraud related KAMs.
Fraud	The IAASB is on track to approve the standard in March 2025.	
Public Interest Entity (PIE)	The IAASB may approve the final standard in December 2024.	Low. The IAASB agreed to restrict the expansion of differential requirements to publicly traded entities, rather than PIEs as proposed. The XRB heard concern at expanding differential requirements to PIEs in NZ.

[1] ISSA 5000™ *General Requirements for Sustainability Assurance Engagements*

Interim Reviews	The IAASB is seeking assistance from the XRB to revise the standard on interim reviews.	High. This is an opportunity to influence the project, develop staff's standard setting knowledge and further build relationships with the AUASB and IAASB staff. The resourcing impact will require staff involvement over about 2 years.

Appendix: Full report from the IAASB September 2024 meeting in New York

Sustainability assurance

2. The IAASB unanimously approved ISSA 5000™ *General Requirements for Sustainability Assurance Engagements* effective for periods beginning on or after December 2026. All members agreed that re-exposure was not necessary.

3. The IAASB is planning to develop and issue implementation guidance, which will draw from the existing EER guidance. The EER guidance will remain in place at this stage.

4. It is expected that the IESBA will approve the ethical requirements for sustainability reporting and assurance in December 2024. A combined launch of ISSA 5000 and IESSA as a package is expected for mid to late January 2025.

5. Adjustments discussed in finalising the standard include:

   - Alignment between ISSA 5000 and the IESBA's IESSA was confirmed.
   - Emphasis added that the auditor's responsibility to gather sufficient, appropriate evidence is not reduced by inherent limitations. If it is not practicable to obtain information to be used as evidence or there is not a sufficient basis to evaluate the relevance and reliability of information (e.g., from an external source), this may result in a limitation of scope and more modified conclusions/opinions. Regardless of any limitations on management's ability to obtain information from such value chain entities, the practitioner is required to obtain sufficient appropriate evidence about the value chain information reported by management. Procedures may be limited to evaluating whether management has complied with the requirements of the applicable criteria and testing the reasonableness of such information.
   - Further clarification of the relationship between applicable criteria and the entity's reporting policies. Greg encouraged references to the reporting policies to flow through the standard, and some further references were added in finalising the standard.
   - Additions have been made to the assurance report to clarify that the practitioner is not assuring the outcome of forward-looking information.
   - The requirement that irrespective of the assessed risks of material misstatement, the practitioner shall consider the need to design and perform substantive procedures for disclosures that, in the practitioner's judgment, are material, was restricted to reasonable assurance engagements.
   - Clarified expectations about communication with the financial statement auditor.

6. A formal vote on what to do with ISAE 3410 is expected to occur in March 2025, following the issue of ISSA 5000.

7. The PIOB member stressed that they would like to see Key Matters in these assurance reports in due course.

Implications for the XRB:

Several of the XRB's concerns with the exposure draft have been addressed:

- A memorandum of understanding is expected to be signed soon with the International Accreditation Forum, addressing concerns about the "at least as demanding" approach to ethics and quality management.
- Alignment with the IESBA has been confirmed.

- Separation of the entity's process to identify sustainability information to be reported and the assurance practitioner's materiality considerations is consistent with requests to consider a two-step approach.
- Adding additional reporting considerations to highlight that the practitioner is not assuring the outcome of forward-looking information. Also, jurisdictions can require key matters, but the IAASB has not required this.

The XRB will need to determine whether to adopt ISSA 5000 in New Zealand. The XRB will need to determine whether to adopt the IESSA and/or make a determination of what else might be "at least as demanding".

Going Concern

8. The IAASB discussed the remaining feedback on the questions from the exposure draft to revise ISA 570, *Going Concern,* including:

   - Concerns relating to scalability: the IAASB agreed that the revised standard should require the auditor to do procedures, considering the identified events or conditions. The work effort will be scaled up and down responsive to the identified events or conditions.
   - Management's assessment of going concern: The task force was asked to relook at how to build on the revised risk assessment approach from ISA 315 (Revised), applying the going concern lens, with concerns about potential inconsistencies in the drafting.
   - Public sector considerations: the IAASB agreed to add application material as proposed by the task force, but acknowledged that additional jurisdictional public sector guidance may be needed.
   - Support to add specific documentation requirements relating to the auditor's consideration of going concern.
   - Further clarification was sought for the scenario where the auditor is unable to obtain sufficient appropriate evidence regarding management's plans or the appropriateness of management's plans, and the implications for the auditor's report.

9. Overall, there was strong support for the direction of the task force and is on track to approve the revised standard in December. Greg is on the Going Concern Task Force.

Implications for the XRB:

There may be an opportunity for the XRB to explore further ways to align the reporting requirements with the revised audit requirements in NZ. In particular:

- Defining material uncertainty within the accounting standards.
- Requiring more explicit statements about the use of the going concern basis of accounting and the judgements made by management.

Fraud

10. The IAASB discussed the first tranche of key issues raised in response to the exposure draft. Overall, the IAASB expressed comfort that the revised standard

does not duplicate the requirements of the ISAs, rather adds the fraud lens in the appropriate places. Key issues discussed included:

- **Auditor's Responsibilities relating to fraud**: The difficulty in differentiating between fraud and error has been acknowledged and adjusted through the updated draft. There was support for proposed clarifications related to 3rd party fraud. The intent is not to expand the auditor's responsibilities, rather to clarify what is in scope and what is the required work effort.
- **Risk Identification and Assessment**: There was discussion on inherent risk and control risk, noting that auditors struggle with the relationship between fraud risk factors and deficiencies in internal controls (ie are all internal control deficiencies fraud risk factors?). The Netherlands has issued guidance to draw on to clarify this further.

  The discussion highlighted that assessing fraud risks at the assertion level has the effect of making this a significant risk. The implication is more work effort, even where risk is assessed as low. Some queried why fraud risk is not a financial statement level risk. The discussion reflected the difference between financial statement level risk (which cannot be a significant risk per ISA 315) and an assertion level risk. There are only two "buckets": either a significant assertion, which drives one response or a financial statement level risk, which drives a different response. Management override of control is somewhat unique and may fit in between the two "buckets" but there are the only two options in ISA 315. The standard makes fraud risks a significant assertion level risk as it does not work as a financial statement level risk. The IAASB agreed that the "why" needs to be better explained, noting that changing the" two bucket" approach is beyond the scope of the project.
- **Fraud or suspected fraud**: There was support for proposed changes to address scalability concerns to clarify work effort when the fraud or suspected fraud is considered to be clearly inconsequential. The discussion focused on the example of a whistleblower programme. The intent was to recognize that a whistle blower programme is a useful source of information, but not to make the auditor responsible for assessing all matters raised through the whistle blower programme. Changes clarify that the auditor's focus is on management's process to filter complaints lodged through a whistle blower programme and how this might highlight fraud risks.
- **Transparency in the auditor's report**: The IAASB agreed to remove the proposed requirement to state when there are no fraud related KAMs. The IAASB will retain the requirement to clearly label each KAM. The discussion reinforced that it is not a requirement to include fraud- related KAMs (i.e. management override of controls), but the standard provides strong encouragement to think really hard about doing so.

11. The IAASB will consider remaining issues and undertake a full read in December. The revised standard is on track for approval in March. Greg is also on the Fraud Task Force.

Implications for the XRB:

The key XRB's submission points arising and discussed at the September meeting have been addressed:

- Concern relating to scope creep regarding 3rd party fraud has been clarified.

- On balance, the XRB supported the use of the KAM mechanism for communicating fraud related matters. The XRB did not support the requirement to include a statement where there are no key audit matters related to fraud. This proposed requirement has now been deleted by the IAASB.

Illustrative audit report of the combined going concern and fraud changes

12. In June 2024, some IAASB members requested to see an updated illustrative auditor's report, reflecting the updated fraud and going concern requirements, as the IAASB was still reflecting on using KAMs for fraud related matters and a different mechanism for going concern matters. The IAASB agreed the merits of combining all the Going Concern matters under the heading of Going Concern, in one place is the right decision.

13. There was a discussion about the length of the report, with encouragement for input from communication experts to ensure that a balance between consistency and effective communication is found. It was noted that research by the Centre for Audit Quality indicated that 90% of users say that CAMs (KAMs in the USA) play an important role, and more than 50% of users prefer to see more CAMs and more than 50% of users prefer to see more detail in the auditor's report.

Implications for the XRB:

A key area of interest to the XRB will be the combined impact of the fraud and going concern requirements on the auditor's report.

Technology

14. The IAASB approved the technology position statement. The IAASB is deliberately moving away from a position of neutrality. How the position statement plays out in the IAASB's standard setting activities is yet to be determined, with the discussion highlighting the range of tools that the IAASB could use, not limited to standard setting interventions, noting that non-authoritative guidance and education will play a key role.

15. The IAASB discussed a gap analysis of the standards to be explored under the integrated project. These include ISQM 1[2], ISA 200[3], ISA 220[4], ISA 330[5] and ISA 500[6]. The IAASB queried whether ISA 315[7] and ISA 520[8] should also be included. This project is being operationalised using the new staff led model.

16. The gap analysis is a working paper to operationalize the technology position statement. The IAASB stressed the need for connection between the technology position statement, the gap analysis and the project proposals. The gap analysis mapped opportunities where a standard setting intervention might be needed. The

[2] ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

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

[4] ISA 220 (Revised), Quality Management for an Audit of Financial Statements

[5] ISA 330, The Auditor's Responses to Assessed Risks

[6] ISA 500, Audit Evidence

[7] ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement

[8] ISA 520, Analytical Procedures

IAASB highlighted the need to filter. Developing criteria to identify when a standard setting intervention is needed will help to prioritise.

Implications for the XRB: The XRB should monitor developments as it becomes clearer how the technology position statement will play out.

Audit evidence and risk response project proposal

17. The revision of the audit evidence standard has been paused and brought within the integrated project proposal. Greg was on the audit evidence task force.

18. The IAASB indicated strong support for the draft integrated project proposal. In summary, this project looks to address two key problems:
    - To clarify the auditor's responsibilities relating to internal control;
    - To clarify the impacts of the use of technology in the audit process. Currently certain requirements may be a barrier to the use of technology or they may result in unclear work effort..

19. The discussion included:
    - Caution not to stray into audit methodology;
    - Emphasis that the actions to explore are not predetermining that a standard setting response is needed. Greg emphasised the need to consider other possibilities in the toolbox – i.e., FAQs, guidance etc.
    - Highlighting the need to reflect scalability in the actions.
    - The need for a stronger connection with the technology position statement.

20. The IAASB is expected to approve the project plan in December 2024. The PIOB member stressed that integration is very valuable and supported the focus on the auditor's role in relation to internal control.

Implications for the XRB: The key issues identified in the draft project plan were confirmed as issues in practice in consultation with the New Zealand reference group that meets ahead of the IAASB meetings to support Greg. The XRB may be interested to monitor and where possible influence decisions relating to standard setting interventions.

Public Interest Entity Track 2

21. The IAASB agreed to restrict the expansion of differential requirements to publicly traded entities (PTEs), rather than public interest entities (PIEs) as proposed. The result of this change in the international standard is a marginal increase in scope from listed entity to publicly traded entity. The IAASB's concern with progressing the PIE approach used by the IESBA was that it would not set a global baseline resulting in inconsistent application. The IESBA has acknowledged that it is not possible to get a consensus globally on the definition of a public interest entity (PIE), and its approach recognises the crucial role of national standard setters to adjust the definition to suit local circumstances. This is a different model than the IAASB is used to and the IAASB preferred to use language that sets a global baseline, while

acknowledging its disappointment at not significantly increasing the application of the differential requirements.

Implications for the XRB

The XRB currently extends differential requirements in the auditing standards to apply to FMC reporting entities considered to have higher levels of public accountability. The agreed change by the IAASB will have little to no impact.

The XRB heard significant concern at a proposal to expand the application of differential requirements to the NZ PIE definition. The decision by the IAASB is consistent with the NZAuASB's preference to retain the status quo in New Zealand.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	5.3
Date of Meeting	17 October 2024
Date prepared:	30 September 2024
Prepared by:	Lisa Thomas, Anna Herlender, Karen Tipper

☐	**Action Required**	X	**For Information Purposes Only**

Agenda Item Objective

1. This objective of this agenda item is for the Board to **NOTE** the update from staff review of the IESBA September 2024 papers.

Firm and Culture and Governance Project

2. The task force presented their preliminary report. This report recommends that IESBA approve two work streams to commence in 2025 being:

   i. A standard setting project to develop principles-based provisions to address firm culture and governance across all service lines of the firm.

   ii. The development of non-authoritative material to:

      a. Demonstrate the impact of ethical culture in driving ethical behaviour within firms and the principal factors that contribute to a strong ethical culture and

      b. Highlight the contribution of various stakeholders to promote and support highly ethical behaviour within accounting firms, individually and collectively.

3. The objective of both workstreams is to establish a global baseline of how to create and maintain ethical culture, addressing the importance of:

   a. Leaders committed to and responsible for the promotion and monitoring of ethical values and behaviour within the firm.

   b. An effective firm-wide governance framework that supports ethical behaviour.

   c. Independent Non-Executives.

   d. Performance management policies that incentivise ethical behaviour, including rewards and recognition.

   e. Being transparent to regulators and other stakeholders about its ethical performance.

   f. Policies and procedures to promote and facilitate consultation and challenge.

g. Education and training programmes.

h. Policies and procedures to monitor ethical behaviour.

4. Approval of the project proposals for both work streams is expected at the December 2024 meeting.

Implications for the XRB:

As New Zealand has adopted the IESBA Code of Ethics, any changes to the Code resulting from the standard setting workstream will need to be considered for adoption in New Zealand. Approval of an exposure draft is proposed for December 2025.

Code of Ethics for Sustainability Reporting and Assurance

5. The IESBA considered proposed responses by the Task Force to comments received on the exposure draft.
6. The Task Force acknowledged the challenges that a wide group of practitioners unfamiliar with the Code will face in implementing a new ethical framework for the first time. The Task Force stressed the importance of the IESBA's commitment to assist with guidance and capacity building after the approval of the standards.
7. The main changes proposed by the Task Force related to:

- Definition of sustainability information – this definition has been aligned with IAASB definition
- More examples added to the section on breaches of fundamental principles. The Task Force proposed not to bring section 230 (Acting with sufficient expertise) as indicated in NZAuASB submission as they felt this was covered by the fundamental principles of integrity and professional competence.
- NOCLAR:
    - Clarified when to communicate with sustainability assurance practitioner/auditor and when to consider communication
    - No additional examples are added to the proposed list of laws and regulations: "The Task Force notes the list is non-exhaustive. The practitioners' responsibility is defined by the scope of the service provided, which determines the relevant laws and regulations of which the practitioner is expected to have knowledge".
- Groups:
    - The IESBA added a definition for two types of components:
        - group components - are within the reporting entity's operational control
        - value chain components – are outside the reporting entity's operational control.

      The determination of operational control relies on the applicable sustainability reporting framework.
    - Requirements remained the same but were restructured into different chapters
- Using the work of another practitioner:
    - Changed structure to clarify independence requirements regarding another practitioner depending if the work is performed on sustainability assurance client or value chain component

    - Clarified that when relying on use of non-assurance work of another practitioner, sustainability assurance practitioner needs to exercise professional judgment to determine the appropriate steps to take to comply with the fundamental principles
- Value chain:
    - No change in definition, removed reference to materiality in the examples
    - Changed the structure of the requirements to respond to the comments on complexity
- Providing non-assurance services to sustainability assurance clients
    - Proposed to keep the types of NAS as in the exposure draft (as their mirror NAS for financial statements) to maintain consistency
    - Clarified that the section does not apply to value chain components
    - Proposed transitional provision in line with the approach taken when NAS was introduced to the Code
- When a firm performs both the audit and sustainability assurance engagement
    - Retain requirements regarding fee disclosures.
    - New application material proposed to part 4A to clarify the fee considerations that an auditor needs to make if they are required by law to carry out the assurance of sustainability information.
    - New transitional provisions regarding long-term association to allow a key sustainability assurance practitioner to continue for a maximum of 2 more years, if they had already served 6 or more cumulative years on a sustainability assurance engagement when it was not within the scope of Part 5.
- Other matters:
    - Revisions to recognize the importance of the sustainability assurance practitioner being aware of the sustainability related issues that may be specific to a certain geography.
- Proposed effective date – for periods beginning on or after 15 December 2026. This is the same effective date as the IAASB's sustainability assurance standard: ISSA 5000.

Implications for the XRB:

As New Zealand has adopted the IESBA Code of Ethics, the additions to the Code in the form of new Part 5 (and sustainability related changes to parts 1-4) will need to be considered for adoption in New Zealand. Approval of the new Part 5 by the IESBA is scheduled for December 2024.

<u>Using the Work of an External Expert</u>

8. The IESBA considered proposed responses by the Task Force to significant comments received on the exposure draft. The four main areas raised by respondents were definitions, the "CCO" (competence, capability and objectivity) approach, prohibition on using the work of an expert if deemed not CCO, and additional objectivity requirements for an audit or other assurance engagement.

9. Proposed responses cover a number of areas raised by NZAuASB in its submission including:

a. To add "experience" to the definition of expertise which aligns with IAASB's definition in ISA 620[1].

b. That the evaluation of CCO wasn't consistent with the Code and ISA 620 in allowing a threat and safeguard approach. Whilst the Task Force didn't agree there could be safeguards that might address threats for competence and capability, new paragraphs were added in relation to objectivity.

c. Concerns that additional provisions for objectivity for audit and assurance engagements would create barriers to using the work of an external expert which would be detrimental to high quality audits and create disproportionate costs for small and medium practices. The Task Force reaffirmed that the provisions are appropriate recognising stakeholder expectations of an external expert's objectivity. The Task Force noted that professional judgement is used to determine if the external expert has the *necessary* objectivity, and that the requirements are *requesting the external expert to provide information,* not to enforce requirements of independence on the external expert.

d. Non-authoritative material to address suggestions to expand conflicts to included sustainability-specific examples which may be relevant to an external expert's objectivity.

e. Collaboration between the IESBA and IAASB to avoid duplication and to promote interoperability. Clarification to concerns raised regarding the evaluation of objectivity for **all** the expert's team. The task force noted that team members would be akin to that of an engagement team and would be for team members involved in *performing the work of the* external expert.

Implications for the XRB:

The XRB will need to determine whether to adopt these proposed revisions to the Code of Ethics once they are finalised by the IESBA for financial auditors.

The requirements proposed also form part of the new Part 5 of the Code for Sustainability Reporting and Assurance. The suitability of the provisions will need to be considered as part of the overall adoption of Part 5.

<u>Collective Investment Vehicles</u>

10. The IESBA is continuing their project on collective investment vehicles (CIV), pension funds and investment company complexes. The objective of this project is to gain an understanding of the relationships between CIVs and pension funds and those entities or persons that act (or provide services) as their trustees, managers and advisers to determine whether the independence provisions and the definition of a related entity in the Code addresses the independence implications form those relationships.

[1] ISA 620 *Using the Work of an Auditor's Expert*

11. The Project Team believes that:

(a) Unrelated third parties that undertake significant management responsibilities on behalf of an Investment Scheme and/or are in a position to exert significant influence over the financial records or financial statements of that Scheme will not be captured by the Code's definitions of "audit client" and "related entity" as they do not control or have significant influence over the Scheme (as required by those definitions); and

(b) In the absence of additional specific provisions in the Code, there is a risk that auditors will not apply the conceptual framework in a consistent manner when they are considering circumstances set out in paragraph 6(a) above.

Implications for the XRB:

We will continue to monitor this project to assess any implications for New Zealand.

Recommendations

12. We recommend the Board **NOTE** this update.

Agenda Item 5.4. XRB/NZASB environmental scan included in NZAuASB Board Pack for information purposes.

Memorandum

Date:	24 September 2024
To:	Members of the New Zealand Accounting Standards Board
From:	Judith Pinny
Subject:	Environmental Update

Recommendation[1]

1. We recommend that the Board NOTES the International and Domestic update for the period 16 July to 24 September 2024.

Purpose and impact

2. The purpose of the Environmental Update is to identify emerging issues and provide an update on developments in the financial and sustainability reporting landscape of strategic interest to the Board.

3. Items with strategic impact on the External Reporting Board:

International

(a) IASB starting a Statement of Cash Flows project.

(b) DPOC is developing a Prioritisation Framework for the IASB.

(c) Task force on Inequality and Social-related Financial Disclosures launched.

Trans-Tasman

(d) CA ANZ: 2024 IFRS Survey results.

(e) Australian Government's AI standards.

Domestic

(f) NBR article on Audit firm rotation in NZ.

(g) Corporate Disclosures' review of NZ's CRD regime.

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1 This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers). It also refers to the work of the International Sustainability Standards Board (ISSB).

(h) Modern Slavery Reform is off the Government's agenda.

(i) Compliance costs for SMEs.

International

IFAC: Global regulatory report

4. The August Global Regulatory Report: IFAC Global Regulatory Report August 2024

WSS: Sue Lloyd's address

5. Sue Lloyd spoke on the investor focus of the IASB and ISSB. She noted that while the IASB has 140 jurisdictions applying IFRS Accounting Standards, only 25 jurisdictions are applying IFRS Sustainability Standards. However, the European Union only counts as one for the ISSB, but 44 for the IASB.

IFRS - Sue Lloyd delivers speech at World Standard-setters Conference 2024

IFRS Foundation Group of Fellows: Strategic Insights group formed

6. The IFRS Foundation trustees have set up a strategic insights group to be chaired by Professor Lucrezia Reichlin (a former IFRS Foundation Trustee). There are 5 Fellows appointed for 3 years, notably none from NZ and Australia. Only one Fellow appears to have a sustainability background.

7. The Fellows Group's purpose is to provide evidence to enhance the Trustees' understanding of the IFRS Standards' impact on the global economy and other strategic matters of interest to the IFRS Foundation.

IFRS - IFRS Foundation Trustees create strategic insights group

IASB: New research project to improve the Statement of Cash Flows

8. In September the IASB has announced a new research project to enhance IAS 7 *Statement of Cash Flows.* The IASB will commence with reviewing existing studies and meeting stakeholders with a view to the first IASB discussion in early 2025.

IFRS - IASB launches review of the statement of cash flows

IFRS Foundation - DPOC: IASB Prioritisation Framework

9. The Due Process Oversight Committee (DPOC) was updated about the IASB's ongoing work to develop a proposed Prioritisation Framework (Framework). This Framework is intended to help the IASB operationalise the principles in the Handbook to consistently prioritise technical projects on its work plan to balance capacity demand

with supply and enable effective execution of the IASB’s mission and provide greater rigour to this decision making.

10. Staff noted that the ISSB is not included because is at a different stage of maturity compared to the IASB and does not have an Interpretations Committee, which is the most common source of potential projects requiring the IASB’s consideration between agenda consultations. It was also noted that the ISSB’s next work plan is for two years whereas the IASB’s current work plan is for five years.

11. The Framework will not be included in the Due Process Handbook.

[DPOC June 2024 meeting summary]

[Back to International]

TISFD: Another Task Force Launched

12. The Task force on Inequality and Social-related Financial Disclosures (TISFD) was launched in September 2024.

13. The TISFD will develop a global framework for companies and financial institutions to include within their public reports more effective disclosures about impacts, dependencies, risks, and opportunities related to social issues, including inequality. The TISFD aims to provide a market-usable framework, aligned with international standards on business conduct, and integrated with reporting standards.

14. The announcement of the launch follows a consultation on the TISFD's proposed scope, mandate, governance structure, and materiality approach. [Responses to the consultation] had revealed that respondents want the TISFD to collaborate with the International Sustainability Standards Board’s (ISSB) human capital standard-setting project and other standard setters, rather than creating a separate framework.

[Taskforce on Inequality & Financial Disclosures | TISFD Global Initiative]

[Back to International]

IPSASB: 2025 Board appointments

15. Claudia Beier of Switzerland has been appointed as the IPSASB Deputy Chair for 2025.

16. The new Board members, appointed for a three-year term of service, are:

    (a) Yun Huang, China

    (b) Sung-Jin Park, Korea

    (c) Karen Sanderson, UK

17. The following three current Board members have been re-appointed:

    (a) Abdullah Al-Mehthil, Saudi Arabia

    (b) Claudia Beier, Switzerland

    (c) Maik Esser-Müllenbach, Germany

IPSASB announces new board appointments for 2025 | IPSASB

Trans-Tasman

CA ANZ: 2024 IFRS Survey results

18. 408 members took part in this IFRS Survey, of which 42% (171 respondents) were from NZ.

19. Key climate takeaways include:

    (a) 66% of CAs consider that the alignment of Australian and NZ climate-related disclosures is important;

    (b) 75% of members thought independent assurance would increase their confidence in climate reporting;

    (c) Annual report, company website and company climate report are the three top information sources on climate-related information about issuers.

20. Other takeaways include:

    (a) 50% of CAs support the government making digital financial reporting mandatory for listed companies.

    (b) 50% of CAs report a moderate to significant impact of adopting IFRS 16 *Leases,* slightly lower than the 2022 survey.

2024 CA ANZ IFRS Survey results

Back to Domestic

CA ANZ: Scenario Analysis Information Guide for Australian CRD

21. CA ANZ and Energetics have collaborated on a general information guide on climate scenario analysis. The guide, which forms a part of a series of general information guides, aims to provide introductory information to assist finance professionals and finance teams to gain an understanding of climate scenarios as a part of their preparation for mandatory climate-related financial disclosures in Australia.

Scenario Analysis Information Guide | CA ANZ (charteredaccountantsanz.com)

Australian Government: Artificial Intelligence (AI) standards

22. The Digital Transformation Agency (DTA) coordinates whole-of-government policies and initiatives on the safe, responsible use of AI by the Australian Public Service.

23. The Digital Transformation Agency has released the Policy for the responsible use of AI in government. The Policy for the responsible use of AI in government comes into effect on 1 September 2024.

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Domestic

NBR: Mandatory rotation of Auditors

24. The NZ audit market does not have the capacity to support the imposition of mandatory rotations of company audits every 10 years, senior auditors from BDO, KPMG and PwC advise.

Capacity constrains audit firm rotation in New Zealand (nbr.co.nz)

Back to Domestic

Corporate Disclosures: Review of NZ Climate reporting regime

25. A review of the NZ CRD regime by Corporate Disclosures, with the XRB mentioned near the end.

Preparing for the second phase of New Zealand's climate disclosure requirements

Back to Domestic

Modern Slavery: Reform off Government's agenda

26. The Minister for Workplace Relations and Safety has disestablished a modern slavery leadership advisory group which was chaired by Rob Fyfe, former CE of Air NZ. This action has disappointed business leaders in NZ.

27. The state of modern slavery remains a concern globally. According to the human rights group Walk Free's Global Slavery Index, an estimated 8,000 New Zealanders were living in modern slavery in 2021.

Business leaders disappointed over dropped modern slavery reform | BusinessDesk

Govt decision to not advance modern slavery law criticised (1news.co.nz)

Back to Domestic

Business Desk: Company Law Reform

28. Proposals to enhance capital market activity from the Commerce Minister are expected to be in front of Cabinet by the end of this year.

29. These include scrapping the requirement for Prospective Financial Statements from listing requirements. Director Liability is another area which is seen to be discouraging listings, particularly the liability around the climate-related disclosures.

Government planning regulations reform for NZX-listed companies: 'We're going to remove those rules' | RNZ News

NBR: Compliance Costs for SMEs

30. This article takes a hypothetical residential building company and looks at the compliance costs it faces as an SME.

Cost of doing business killing our SMEs (nbr.co.nz)

Incorporated Societies: Pressure to remove Reckless Trading Provisions

31. In this NBR article Chapman Tripp argues that the Incorporated Societies Act should not have the same level of liability for Directors that the Companies Act has for Limited Liability Companies. However, Minister Bayly is reluctant to move on this issue.

Commerce Minister not buying incorporated society concerns (nbr.co.nz)

Ministry of Regulation: Chief Executive and Secretary for Regulation appointed

32. Gráinne Moss has been appointed to the position of Secretary for Regulation and Chief Executive of the Ministry for Regulation from her current post as Acting Secretary for Regulation. She has been appointed to this new role for five years.

Our leadership - Ministry for Regulation

XRB Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Supplementary Agenda item 6.4

International Standard on Auditing (New Zealand) For Audits of Financial Statements of Less Complex Entities

ISA (NZ) for LCE

Exposure Draft

Submissions close 19 February 2025

November 2024

THE INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) FOR AUDITS OF FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES

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Commencement and application

When standard takes effect (Section 27 Financial Reporting Act 2013)

1. This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019[1].

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

2. The accounting periods in relation to which this standard commences to apply are:

   (a) for an **early adopter**, those accounting periods, following and including, the **early adoption accounting period**.

   (b) for any other auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

3. In paragraph 2:

   early adopter means an auditor that applies this standard for an early adoption accounting period.

   early adoption accounting period means the accounting period:

   (a) that begins before the mandatory date but has not ended or does not end before this standard takes effect (and to avoid doubt, that period may have begun before this standard takes effect); and

   (b) for which the early adopter:

      (i) first applies this standard for an audit engagement of a less complex entity; and

      (ii) discloses in the auditor's report for that accounting period that this standard has been applied for that period.

   mandatory date means [TBC].

[1] The standard was published on [Date]

History of amendments

Table of pronouncements – ISA (NZ) for LCE

This table lists the pronouncements establishing and amending the ISA (NZ) for LCE.

Pronouncements	Date approved	Mandatory date
International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities	TBC	[TBC]

Preface to the ISA (NZ) for LCE

P.1. [Amended by the NZAuASB]

NZP.1. This standard (i.e., the ISA (NZ) for LCE) has been designed to achieve reasonable assurance about whether the general purpose financial statements, and inclusive of service performance information, where relevant, as a whole are free from material misstatement, whether due to fraud or error, for audits of general purpose financial statements, and inclusive of service performance information, of less complex entities (LCEs) in the private and public sectors. The standard has been developed to reflect the nature and circumstances of an audit of the service performance information, where relevant, and the financial statements of an LCE and result in the consistent performance of a quality audit engagement. This standard is premised on the basis that the firm is subject to Professional and Ethical Standard 3[2] or to national requirements that are at least as demanding. A quality audit engagement is achieved by planning and performing the engagement and reporting on it in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objective of this standard involves exercising professional judgement and maintaining professional scepticism.

P.2. This standard is written in the context of an audit of a complete set of general purpose financial statements[3] of an LCE as contemplated in Part A. It may also be adapted as necessary in the circumstances of the engagement to an audit of a complete set of special purpose financial statements, or an audit of a single financial statement or of a specific element, account or item of a financial statement, only if the entity is an LCE as set out in Part A.

P.3. When an audit engagement is undertaken using this standard, the International Standards on Auditing (New Zealand) and New Zealand Auditing Standards do not apply to the engagement.

P.4. Part A sets out the authority for determining the appropriate use of the ISA (NZ) for LCE. Decisions about the required or permitted use of this standard, including descriptions of the type of entities for which an audit in accordance with this standard may be used rest with legislative and regulatory authorities or relevant local bodies with standard-setting authority.

P.5. If this standard is used for audit engagements other than those contemplated in Part A, the auditor is not permitted to represent compliance with the ISA (NZ) for LCE in the auditor's report.

P.6. This standard does not override local law or regulation that governs audits of financial statements in a particular jurisdiction. The ISA (NZ) for LCE does not address the responsibilities of the auditor that may exist in legislation or regulation. Such responsibilities may differ from those established in this standard and it is the responsibility of the auditor to ensure compliance with all relevant legal, regulatory, or professional obligations.

The Applicable Financial Reporting Framework

P.7. The financial statements subject to audit are those of the entity, prepared by management of the entity with oversight from those charged with governance. Law or regulation may establish the responsibilities of management, and those charged with governance, in relation to financial reporting. This standard does not impose responsibilities on management or those charged with governance and does not override law or regulation that govern their responsibilities. However, an audit in accordance with this standard is conducted on the premise that management, and where appropriate, those charged with governance have acknowledged certain responsibilities

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2 Professional and Ethical Standard (PES) 3, *Quality Management for Firms that Perform Audits or Reviews for Financial Statements, or Other Assurance or Related Services Engagements*

3 [NZ] In accordance with paragraph NZP.16A., references in this standard to *Financial Statements* include, where relevant, *Service Performance Information* and *Entity Information*. ~~, when an auditor is applying Part 11.~~(where the audit is an audit of financial statements and service performance information and, where relevant, entity information).

that are fundamental to the conduct of the audit. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

NZP.7.A. In New Zealand, those charged with governance generally have responsibility for ensuring an entity meets its legal obligations in relation to the preparation of the financial statements, often delegating the process of financial reporting to management, while retaining ultimate responsibility. Auditors shall use professional judgement and knowledge of New Zealand's legal and governance standards to assess if this standard's requirements pertain to management, those charged with governance, or both. In this ISA (NZ) for LCE, "management" should be read hereafter as “management and, where appropriate, those charged with governance.”

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

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

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

P.8. The applicable financial reporting framework often encompasses financial reporting standards established by an authorised or recognised standard setting organisation, or legislative or regulatory requirements.

P.9. The requirements of the applicable financial reporting framework determine the form and content of the financial statements. Although the framework may not specify how to account for or disclose all transactions or events, the framework ordinarily embodies sufficiently broad principles that can serve as a basis for developing and applying accounting policies consistent with the framework’s concepts underlying the requirements.

P.10. Some financial reporting frameworks are fair presentation frameworks, while others are compliance frameworks. This standard covers both frameworks. The term “fair presentation framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

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

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

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

[NZ] The Examples of financial reporting requirements that are designed to achieve fair presentation in New Zealand include the following issued by the New Zealand Accounting Standards Board:

- *New Zealand equivalents to International Financial Reporting Standards (NZ IFRS);*
- *New Zealand equivalents to IFRS Reduced Disclosure Regime (NZ IFRS RDR);*
- *Public Benefit Entity Standards (PBE Standards);*
- *Public Benefit Entity Standards Reduced Disclosure Regime (PBE Standards RDR);*
- *Reporting Requirements for Tier 3 Public Sector Entities (Tier 3 (PS) Standard);*
- *Reporting Requirements for Tier 3 Not-for-Profit Entities (Tier 3 (NFP) Standard).*

Examples of financial reporting requirements that only require compliance with the requirements (compliance frameworks) in New Zealand include the following issued by the New Zealand Accounting Standards Board:

- *Reporting Requirements for Tier 4 Public Sector Entities (Tier 4 (PS) Standard);*
- *Reporting Requirements for Tier 4 Not-for-Profit Entities (Tier 4 (NFP) Standard).*

An Audit of Financial Statements

P.11. The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. As the basis for the auditor's opinion, this standard requires the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

P.12. Reasonable assurance is a high level of assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level. However, reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive.

Inherent Limitations of an Audit

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

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

Format of the ISA (NZ) for LCE

P.13. [Amended by the NZAuASB]

NZP.13. The ISA (NZ) for LCE includes:

(a) Part A, which sets out the authority for determining the appropriate use of the ISA (NZ) for LCE.

(b) Part 1, which sets out the fundamental concepts, general principles and overarching requirements to be applied throughout the audit.

(c) Part 2, which sets out the general requirements for audit evidence and documentation, as well as the overall objective of the audit.

(d) Part 3, which sets out the auditor's and engagement partner's obligations and responsibilities for quality management in an audit of an LCE.

(e) Parts 4 to 9, which follow the flow of an audit engagement, and set out the detailed requirements for the audit. Each of these Parts also includes specific communication and documentation requirements as necessary.

(f) Part 10, which sets out the special considerations that apply to an audit of group financial statements.

(~~NZ~~ g) [NZ] Part 11, which sets out the considerations that apply to an audit of service performance information.

(h) Appendices, which include the glossary of terms used in this standard, assertions, ~~an~~ illustrative engagement letters and ~~an~~ illustrative representation letters, as well as other relevant supporting materials for implementation of the requirements within this standard.

P.14. [Amended by the NZAuASB]

NZP.14. The content of Parts 1–11 includes: ~~Parts 1–11~~

(a) Introductory material in a separate box setting out the content and scope of that Part (but does not create any additional obligations for the auditor).

(b) Objective(s), which link the requirements of that Part and the overall objective of the audit.

(c) Requirements to be met, except where the requirement is conditional, and the condition does not exist. Requirements are expressed using "shall."

(d) Essential explanatory material (EEM) designed to provide further explanation relevant to a sub-section or a specific requirement. All EEM is presented in italics within separate blue boxes. There are two types of EEM: general introductory EEM that explains the context of the section that follows, and EEM specific to the requirement directly above it.

Certain requirements and EEM are only applicable when there are engagement team members other than the engagement partner. Such requirements and EEM are presented in a box with the header "Considerations When There Are Members of the Engagement Team Other Than the Engagement Partner".

P.15. Definitions, describing the meanings attributed to certain terms for the purpose of this standard, can be found in the Glossary of Terms in Appendix 1. The definitions assist in the consistent application and interpretation of the requirements, and are not intended to override definitions that may be established for other purposes, whether in law or regulation.

P.16. For the purposes of this standard, the use of "LCE" or "entity" also refers to a group (i.e., where the audit is an audit of group financial statements).

NZP.16A. For the purposes of this standard, the use of "financial statements" also refers to "service performance information" and where relevant "entity information" (i.e., where the audit is an audit of financial statements and service performance information and, where relevant, entity information).

Non-Authoritative Support Materials

P.17. [Amended by the NZAuASB]

NZP.17. The XRB may issue non-authoritative material to support the implementation of the ISA (NZ) for LCE.

Public Sector Entities

P.18. [Amended by the NZAuASB]

NZP.18. This standard is relevant to engagements in the public sector, when the considerations set out in the Authority in Part A apply. The public sector auditor's responsibilities, however, may be affected by the audit mandate, or by obligations on public sector entities arising from law, regulation or other authority (such as ministerial directives, government policy requirements, or resolutions of the legislature), which may encompass a broader scope than an audit of financial statements in accordance with this standard. These additional responsibilities are not dealt with in this standard. They may be dealt with in the Auditor-General's Auditing Standards~~ or in other guidance developed by the Auditor-General~~.

P.19. [Amended by the NZAuASB]

NZP.19. The applicable financial reporting framework used by a public sector entity is determined by the legislative and regulatory frameworks~~ relevant to each jurisdiction or within each geographical area~~. Matters that may be considered in the entity's application of the applicable financial reporting requirements, and how it applies in the context of the nature and circumstances of the entity and its environment, include whether the entity applies a full accrual basis of accounting or a cash basis of accounting in accordance with the Public Sector PBE Accounting Standards issued by the New Zealand Accounting Standards Board, or a hybrid.

P.20. Ownership of a public sector entity may not have the same relevance as in the private sector because decisions related to the entity may be made outside of the entity as a result of political processes. Therefore, management may not have control over certain decisions that are made. Matters that may be relevant include understanding the ability of the entity to make unilateral decisions, and the ability of other public sector entities to control or influence the entity's mandate and strategic direction.

P.21. When appropriate, additional considerations specific to public sector entities have been included in EEM.

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

Content of this Part

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

The ISA (NZ) for LCE is designed to enable the achievement of the overall objectives of the auditor, given the typical nature and circumstances of an LCE as described in this Part. There are limitations to the use of the ISA (NZ) for LCE that are designated into three categories: specific prohibitions, qualitative characteristics, and quantitative thresholds. Part A also describes the responsibilities for legislative or regulatory authorities or relevant local bodies with standard-setting authority to support the appropriate use of this standard. The use of "LCE" or "entity" also refers to a group (i.e., where the audit is an audit of group financial statements).[4]

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

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

Limitations for Using the ISA (NZ) for LCE

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

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

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

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

Specific Prohibitions

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

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

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

(b) The entity is a listed entity.

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

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

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

(~~NZ~~ iii) [NZ] It is an FMC reporting entity or a class of FMC reporting entities that is considered to have a "higher level of public accountability" than other FMC reporting entities under section 461K of the Financial Markets Conduct Act 2013;

(~~NZ~~ iv)[NZ] It is an FMC reporting entity or a class of FMC reporting entities that is considered to have a "higher level of public accountability" by a notice issued by the Financial Markets Authority (FMA) under section 461L(1)(a) of the Financial Markets Conduct Act 2013; or

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

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

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

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

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

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

Component Auditors

A component auditor is an auditor who performs audit work related to a component[5] for purposes of the group audit. A component auditor is a part of the engagement team for a group audit. Component auditors may be from a network firm, a firm that is not a network firm, or the group auditor's firm (e.g., another office within the group auditor's firm).

In some circumstances, the group auditor may perform centralised testing on classes of transactions, account balances or disclosures, or may perform audit procedures related to a component. In these circumstances, the group auditor is not considered a component auditor.

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

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

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

Qualitative Characteristics

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

The ISA (NZ) for LCE has not been designed to address:

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

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

- *Procedures or matters typically relevant to listed entities, including reporting on segment information or key audit matters.*
- *When the auditor intends to use the work of internal auditors, as this would ordinarily not be applicable to an audit of an LCE.*
- *When the auditor intends to use a report provided by a service auditor of a service organisation either as audit evidence about the design and implementation of controls at the service organisation (i.e., a type 1 or type 2 report), or as audit evidence that controls at the service organisation are operating effectively (i.e., a type 2 report), as this would ordinarily not be applicable to an audit of an LCE.*

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

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

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

<table>
<tr><td colspan="2">Additional Characteristics Relevant for Group Audits

For group audits, the following qualitative characteristics are to be considered in addition to those above:</td></tr>
<tr><td>Group Structure and Activities</td><td>The group has few entities or business units (e.g., 5 or less).

Entities or business units within the group operate in jurisdictions with similar characteristics, for example laws or regulations and business practices.</td></tr>
<tr><td>Access to Information or People</td><td>Group management will be able to provide the engagement team with access to information and unrestricted access to persons within the group as determined necessary by the group auditor.</td></tr>
<tr><td>Consolidation Process</td><td>The group has a simple consolidation process. For example:
• Intercompany or other consolidation adjustments are not complex;
• Financial information of all entities or business units has been prepared in accordance with similar accounting policies applied to the group financial statements; and
• All entities or business units have the same financial reporting period-end as that used for group financial reporting.</td></tr>
</table>

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

Quantitative Thresholds

A.4. [Amended by the NZAuASB]

NZA.4. [Section deleted by the NZAuASB – no quantitative thresholds are applicable ~~under~~ when applying the ISA (NZ) for LCE]

Responsibilities of Legislative or Regulatory Authorities or Relevant Local Bodies

NZA.5. The XRB permits the voluntary application of the ISA (NZ) for LCE in specific circumstances. Auditors may voluntarily adopt this standard:

(a) On or after the mandatory date, or early adoption accounting period, as defined in the *Commencement and Application* section of this standard; and

(b) The auditor determines that the audit engagement can be undertaken using the ISA (NZ) for LCE in accordance with Part A of this standard. (~~Ref~~see paragraphs~~: Para.~~ 3.2.9., 4.3.1., 6.5.1., 8.5.1.).

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

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

- *May add or modify the classes of entities in paragraph A.1.(c) as set out in paragraph A.2.*
- *Determine quantitative thresholds described in paragraph A.4. (Not applicable for NZ)*

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

1. Fundamental Concepts, General Principles and Overarching Requirements

Content of this Part

Part 1 sets out the:

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

Scope of this Part

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

1.1. Effective Date

1.1.1. [Deleted by NZAuASB, refer to Commencement and Application section on page xx]

1.2. Relevant Ethical Requirements and Firm-Level Quality Management

Relevant Ethical Requirements for an Audit of Financial Statements

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

[NZ] Relevant ethical requirements in New Zealand ordinarily comprise the provisions of Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) related to an audit of financial statements.

Professional and Ethical Standard 1 (PES 1) establishes the fundamental principles of ethics, which are:

- *Integrity;*
- *Objectivity;*
- *Professional competence and due care;*
- *Confidentiality; and*
- *Professional behaviour.*

The fundamental principles of ethics establish the standard of behaviour expected of an assurance practitioner. PES 1 provides a conceptual framework that establishes the approach *which an assurance practitioner is required to apply when identifying, evaluating and addressing threats to compliance with the fundamental principles.*

Firm-Level Quality Management

1.2.2. [Amended by the NZAuASB]

NZ1.2.2. The engagement partner shall be a member of a firm that applies PES 3[6] and PES 4[7], or national requirements that are at least as demanding as PES 3 and PES 4.

[NZ] Systems of quality management, including the policies or procedures, are the responsibility of the firm. PES 3, applies to all firms that perform engagements governed by the Standards of the External Reporting Board (XRB). If an engagement quality review is required by the firm's policies or procedures established in accordance with PES 3, then PES 4 applies. PES 4 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.

1.3. Overall Objectives of the Auditor

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

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

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

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

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

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

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

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

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

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

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

7 Professional and Ethical Standard (PES) 4 *Engagement Quality Reviews*

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

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

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

1.4. Fundamental Concepts and General Principles for Performing the Audit

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

[NZ] A requirement is not relevant only in the cases where the entire Part is not relevant (for example, if the audit is not a group audit, or if the audit does not include the audit of service performance information; or the requirement is conditional and the condition does not exist (for example, the requirement to modify the auditor's opinion where there is an inability to obtain sufficient appropriate audit evidence, and there is no such inability).

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

Professional Judgement

1.4.3. The auditor shall exercise professional judgement in planning and performing the audit.

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

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

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

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

Professional Scepticism

1.4.4. The auditor shall plan and perform the audit with professional scepticism recognising that circumstances may exist that cause the financial statements to be materially misstated.

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

Professional scepticism includes being alert to, for example:

- *Audit evidence that contradicts other audit evidence obtained.*

- *Information that brings into question the reliability of documents and responses to enquiries to be used as audit evidence.*
- *Conditions that may indicate possible fraud.*
- *Circumstances that suggest the need for audit procedures in addition to those required by this standard.*

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

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

Conditions of the engagement can create pressures on the engagement team that may impede the appropriate exercise of professional scepticism when designing and performing audit procedures and when evaluating audit evidence.

1.5. Fraud

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

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

An auditor conducting an audit in accordance with this standard is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error even though the audit is properly planned and performed in accordance with this standard. This is because fraud may involve sophisticated and carefully organised schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor.

When obtaining reasonable assurance, the auditor is responsible for:

- *Maintaining professional scepticism throughout the audit;*
- *Considering the potential for management override of controls; and*
- *Recognising the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud.*

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

(a) Identifying and assessing risks of material misstatement, whether due to fraud or error. In doing so, the auditor shall evaluate whether information obtained from the procedures to identify and assess risks, and related activities, indicates that one or more fraud risk factors are present;[8]

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

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

Considerations Specific to Public Sector Entities

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

Auditor Unable to Continue the Engagement

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

Considerations Specific to Public Sector Entities

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

1.6. Laws and Regulations

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

The requirements in this standard are designed to assist the auditor in identifying material misstatement of the financial statements due to non-compliance with laws and regulations. However, the auditor is not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations. The auditor's focus in an audit of the financial statements is on circumstances when non-compliance with laws or regulations results in a material misstatement of the financial statements. In this regard, the auditor's responsibilities are in relation to compliance with two different categories of laws and regulations and are distinguished as follows:

- *The provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements (e.g., tax and pension laws and regulations); and*

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

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

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

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

Considerations Specific to Public Sector Entities

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

Reporting to an Appropriate Authority Outside the Entity

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

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

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

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

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

1.7. Related Parties

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

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

(b) Arrangements or other information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor; and

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

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

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

1.8. General Communications with Management and Those Charged with Governance

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

1.8.2. The auditor shall communicate with those charged with governance the relevant ethical requirements, including those related to independence, that the auditor applies for the audit engagement.

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

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

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

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

(a) Legal requirements for communication; and

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

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

Communication with management and, where appropriate, those charged with governance, often may occur in a less structured manner and matters may be communicated orally. This standard requires that the auditor exercises professional judgement to determine when oral communication of a matter would not be adequate and communication in writing is appropriate. In addition, certain matters are required to be communicated in writing, as set out in this standard.

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

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

Specific Communications in Relation to Fraud

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

Considerations Specific to Public Sector Entities

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

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

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

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

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

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

1.9. Specific Documentation Requirements

In addition to the general documentation requirements in Part 2.4. which apply throughout the audit engagement, specific matters to be documented relevant to this Part are described below.

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

2. Audit Evidence and Documentation

Content of this Part

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

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

Scope of this Part

The requirements in this Part apply throughout the audit engagement.

2.1. Objectives

2.1.1. The objectives of the auditor are to:

(a) Design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion; and

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

2.2. Sufficient Appropriate Audit Evidence

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

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

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

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

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

2.3. Information to be Used as Audit Evidence

Audit evidence to draw reasonable conclusions on which to base the auditor's opinion is obtained by designing and performing procedures to identify and assess risks of material misstatement (see

Part 6) and responding to assessed risks of material misstatement (see Part 7), as well as procedures in other Parts to comply with the requirements of the ISA (NZ) for LCE.

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

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

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

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

Automated Tools and Techniques (ATT)

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

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

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

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

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

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

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

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

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

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

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

2.3.3. Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further and determine the effect on the rest of the audit evidence obtained.

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

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

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

2.4. General Documentation Requirements

The ISA (NZ) for LCE sets out general documentation requirements in this Part and, as appropriate, specific documentation requirements in other Parts. A documentation requirement applies only to requirements that are relevant in the circumstances.

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

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

(i) The identifying characteristics of the specific items or matters tested;

(ii) Who performed the work and the date such work was completed;

(iii) Who reviewed the audit work performed and the date and extent of such review.

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

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

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

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

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

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

Significant Matters

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

When the Engagement Partner Performs All the Audit Work

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

Automated Tools and Techniques

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

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

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

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

Documentation of Communications

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

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

3. Engagement Quality Management

Content of this Part

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

Scope of this Part

In accordance with PES 3, the firm is responsible for designing, implementing, and operating a system of quality management for audits of financial statements, that provides the firm with reasonable assurance that:

- The firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- Engagement reports issued are appropriate in the circumstances.

The engagement team, led by the engagement partner, is responsible within the context of the firm's system of quality management for:

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

The requirements in this Part apply throughout the audit engagement.

3.1. Objective

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

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

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

3.2. The Engagement Partner's Responsibilities

Leadership Responsibilities for Managing and Achieving Quality

3.2.1. The engagement partner shall take:

(a) Overall responsibility for managing and achieving quality on the audit engagement, including being sufficiently and appropriately involved throughout the audit engagement such that the engagement partner has the basis for determining whether the significant judgements made, and conclusions reached are appropriate in the circumstances; and

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

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

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

3.2.2. In taking overall responsibility for managing and achieving quality on the audit engagement, the engagement partner shall determine that the nature, timing and extent of direction, supervision and review is:

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

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

Sufficient and Appropriate Involvement

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

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

Direction, Supervision and Review

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

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

3.2.3. The engagement partner shall take responsibility for establishing and communicating to the members of the engagement team the expected behaviour of the engagement team members, including emphasising:

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

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

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

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

In addressing the requirements in paragraphs 3.2.2. and 3.2.3., the engagement partner may communicate directly to other members of the engagement team and reinforce this communication through conduct and actions (e.g., leading by example).

Relevant Ethical Requirements

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

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

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

(b) Consulting with others in the firm.

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

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

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

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

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

Engagement Resources

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

(a) Determine that:

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

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

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

Other Engagement Partner Responsibilities

3.2.8. The engagement partner shall:

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

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

(ii) Take appropriate action; and

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

3.2.9. The engagement partner shall:

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

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

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

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

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

Consultation may be appropriate, or required by the firm's policies or procedures, when there are:

- *Issues that are complex or unfamiliar;*
- *Significant risks;*
- *Significant transactions that are outside the normal course of business or that otherwise appear to be unusual;*
- *Limitations imposed by management; or*
- *Non-compliance with law or regulation.*

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

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

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

(a) Cooperate with the engagement quality reviewer;

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

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

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

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

(a) Significant matters;

(b) Significant judgements and the conclusions reached; and

(c) Other matters that, in the engagement partner's professional judgement, are relevant to the engagement partner's responsibilities.

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

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

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

3.3. Specific Documentation Requirements

In addition to the general documentation requirements in Part 2.4. which apply throughout the audit engagement, specific matters to be documented relevant to this Part are described below.

3.3.1. The auditor shall include in the audit documentation:

(a) Matters identified, relevant discussions, and conclusions reached with respect to fulfilment of responsibilities for relevant ethical requirements, including applicable independence requirements.

(b) If the audit engagement is subject to an engagement quality review, that the engagement quality review has been completed on or before the date of the auditor's report.

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

Content of this Part

Part 4 sets out the auditor's responsibilities for:

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

Part 4 also addresses activities related to initial audit engagements.

Scope of this Part

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

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

The Preface sets out that this standard is premised on the basis that the firm is subject to PES 3 or to national requirements that are at least as demanding. PES 3 requires the firm to establish quality objectives that address the acceptance and continuance of client relationships and specific engagements. In addition, compliance with PES 3 may require firms to have policies or procedures to address other matters of relevance to this Part.

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

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

4.1. Objectives

4.1.1. The objectives of the auditor are:

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

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

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

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

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

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

4.2. Preconditions for an Audit

4.2.1. [Amended by the NZAuASB]

NZ4.2.1. In order to establish whether the preconditions for an audit are present, the auditor shall:

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

(b) Obtain the agreement of those charged with governance that they acknowledge and understands their responsibility on behalf of the entity:

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

(ii) For such controls as those charged with governance, and where appropriate management, determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and

(iii) To provide the auditor with:

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

b. Additional information that the auditor may request from those charged with governance, and where appropriate management for the purpose of the audit; and

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

4.2.2. [Amended by the NZ AuASB]

NZ4.2.2. If the preconditions for an audit are not present the auditor shall discuss the matter with those charged with governance. Unless required by law or regulation to do so, the auditor shall not accept the proposed audit engagement:

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

(b) If the agreement of those charged with governance that it acknowledges and understands its responsibility has not been obtained.

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

4.3. Considerations in Engagement Acceptance or Continuance

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

4.3.1. The engagement partner shall determine that:

(a) The firm's policies or procedures regarding acceptance and continuance of the audit engagement have been followed;[9] and

(b) Conclusions reached regarding acceptance and continuance of the audit engagement are appropriate, including that the audit engagement can be undertaken using the ISA (NZ) for LCE in accordance with Part A of this standard.

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

Information and audit evidence gathered during client acceptance and continuance procedures may be used to make the determination about use of the ISA (NZ) for LCE. Further information may also be obtained when performing risk identification and assessment procedures that may change the engagement partner's initial determination about use of the ISA (NZ) for LCE in accordance with this Part. Part 6 (see paragraph 6.5.1.) requires the engagement partner to determine whether the ISA (NZ) for LCE continues to be appropriate for the nature and circumstances of the entity being audited during the risk identification and assessment process. Consideration of further information throughout the audit may change the engagement partner's determination about the appropriateness of the use of the ISA (NZ) for LCE.

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

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

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

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

NZ4.3.4. Professional and Ethical Standard 1[10], requires assurance practitioners to comply with Auditing Standards; therefore, auditors shall not sign an audit report that does not conform to the requirements of this ISA (NZ) for LCE. In the extremely rare situation described in paragraph 4.3.2., the auditor shall attach a separate report that conforms to the requirements of this ISA (NZ) for LCE.

4.4. Terms of the Audit Engagement

4.4.1. [Amended by the NZAuASB]

NZ4.4.1.The auditor shall agree the terms of the audit engagement with those charged with governance.

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[9] [NZ] PES 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph 30 sets out the firm's responsibilities for establishing quality objectives for the acceptance of specific engagements, including judgements relating to financial and operating priorities of the firm when deciding to accept or continue specific engagements.

[10] Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*

[NZ] If law or regulation prescribes the responsibilities of those charged with governance that are equivalent in effect to what this standard requires, the auditor may use the wording of the law or regulation to describe them in the written agreement.

Appendix 2 sets out an illustrative engagement letter.

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

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

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

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

4.4.5. [Amended by the NZAuASB]

NZ4.4.5. If the terms of the audit engagement are changed, the auditor and those charged with governance shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.

4.4.6. [Amended by the NZAuASB]

NZ4.4.6. If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management or those charged with governance to continue the original audit engagement, the auditor shall:

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

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

4.5. Initial Audit Engagements

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

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

4.5.3. If the prior period's financial statements were audited by a predecessor auditor and there was a modification to the opinion, the auditor shall evaluate the effect of the matter giving rise to the modification in assessing the risks of material misstatement in the current period's financial statements.[11]

4.5.4. The auditor shall obtain sufficient appropriate audit evidence[12] about whether the opening balances contain misstatements that materially affect the current period's financial statements by:

[11] For the effect on the auditor's report see Part 9, paragraph 9.5.9.

[12] For the effect on the auditor's report see Part 9, paragraph 9.5.6.

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

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

(c) Performing one or more of the following:

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

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

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

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

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

4.5.5. If the auditor obtains audit evidence that the opening balances contain misstatements that could materially affect the current period's financial statements, the auditor shall perform such additional audit procedures as are appropriate in the circumstances to determine the effect on the current period's financial statements.[13]

4.5.6 The auditor shall obtain sufficient appropriate audit evidence about whether the accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, and whether any changes in accounting policies have been appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.[14]

4.6. Specific Communication Requirements

4.6.1. The auditor shall communicate with those charged with governance:

(a) The auditor's responsibilities for forming and expressing an opinion on the financial statements prepared by management; and

(b) That the auditor's responsibilities do not relieve management or those charged with governance of their responsibilities for oversight of the preparation of the financial statements.

4.7. Specific Documentation Requirements

In addition to the general documentation requirements in Part 2.4. which apply throughout the audit engagement, specific matters to be documented relevant to this Part are described below.

[13] For the effect on the auditor's report see Part 9, paragraph 9.5.7.

[14] For the effect on the auditor's report see Part 9, paragraph 9.5.8.

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

4.7.2. The auditor shall document the basis for the determination made for using the ISA (NZ) for LCE.

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

4.7.4 [Amended by the NZAuASB]

NZ4.7.4. The auditor shall record in an audit engagement letter or other suitable form of written agreement:

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

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

(c) The respective responsibilities of the auditor and those charged with governance;

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

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

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

4.7.5. [Amended by the NZAuASB]

NZ4.7.5 If law or regulation prescribes in sufficient detail the terms of the audit engagement referred to in this standard, the auditor need not record them in a written agreement, except for the fact that such law or regulation applies, and that those charged with governance acknowledges and understands its responsibilities.

5. Planning

Content of this Part

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

Scope of this Part

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

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

5.1. Objectives

5.1.1. The objectives of the auditor are to:

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

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

5.2. Planning Activities

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

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

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

(a) Identify the characteristics of the engagement that define its scope;

(b) Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;

(c) Consider the factors that, in the auditor's professional judgement, are significant in directing the engagement team's efforts;

(d) Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for this entity is relevant; and

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

Establishing the scope, timing and direction of the audit need not be a complex or time-consuming exercise. For example, a brief memorandum prepared after the previous audit, based on a review of the working papers and highlighting issues identified in the audit just completed, updated in the current period based on discussions with the owner-manager, can serve as the documented scope, timing and direction for the current audit engagement. Standard audit programmes or *checklists created based on the assumption of few identified controls, as is likely to be the case in a less complex entity, may be used provided that they are tailored to the circumstances of the engagement, including the auditor's risk assessments.*

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

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

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

5.2.4. The engagement partner shall consider information obtained in the acceptance and continuance process in planning and performing the audit.

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

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

Engagement Team Discussion

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

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

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

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

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

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

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

Using the Work of Management's Expert

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

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

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

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

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

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

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

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

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

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

If the preparation of the financial statements involves the use of expertise in a field other than accounting, the auditor, who is skilled in accounting and auditing, may not possess the necessary expertise to audit those financial statements. The auditor's determination of whether to use the work of an auditor's expert and, if so, when and to what extent, assists the auditor in meeting the requirements in paragraphs 3.2.7. and 5.2.1.(e). As the audit progresses, or as circumstances change, the auditor may need to revise earlier decisions about using the work of an auditor's expert.

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

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

(a) The nature of the matter to which that expert's work relates;

(b) The risks of material misstatement in the matter to which that expert's work relates;

(c) The significance of that expert's work in the context of the audit;

(d) The auditor's knowledge of and experience with previous work performed by that expert; and

(e) Whether that expert is subject to the auditor's firm's quality management policies or procedures.

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

(a) Evaluate whether the auditor's expert has the necessary competence, capabilities and objectivity for the auditor's purposes. In the case of an auditor's external expert, the evaluation of objectivity shall include enquiry regarding interests and relationships that may create a threat to that expert's objectivity;

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

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

5.3. Materiality

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

Materiality in the Context of an Audit

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

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

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

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

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

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

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

- *The relative volatility of the benchmark.*

Examples of benchmarks that may be appropriate, depending on the circumstances of the entity, include categories of reported income such as profit before tax, total revenue, gross profit and total expenses, total equity or net asset value. Profit before tax from continuing operations is often used for profit-oriented entities. When profit before tax from continuing operations is volatile, other benchmarks may be more appropriate, such as gross profit or total revenues. For a not-for-profit organisation, a benchmark such as revenue, expenses, assets or equity may be more relevant.

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

There is a relationship between the percentage and the chosen benchmark, such that a percentage applied to profit before tax from continuing operations will normally be higher than a percentage applied to total revenue.

Considerations Specific to Public Sector Entities

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

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

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

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

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

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

Clearly Trivial Misstatements

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

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

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

5.4. Specific Communication Requirements

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

5.5. Specific Documentation Requirements

In addition to the general documentation requirements in Part 2.4. which apply throughout the audit engagement, specific matters to be documented relevant to this Part are described below.

5.5.1. The auditor shall include in the audit documentation a description of the scope, timing and direction of the audit, including the nature, timing and extent of procedures to be performed, and significant changes made during the audit, together with the reasons for such changes.

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

5.5.2. The auditor shall include in the audit documentation the matters discussed among the engagement team and significant decisions reached, including the significant decisions regarding the susceptibility of the entity's financial statements to material misstatement due to fraud.

5.5.3. The auditor shall include in the audit documentation the:

(a) Following amounts and the factors considered in their determination (including any revisions as applicable):

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

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

(iii) Performance materiality.

(b) Amount below which misstatements would be considered clearly trivial.

6. Risk Identification and Assessment

Content of this Part

Part 6 contains the requirements relevant to the auditor's responsibility to perform procedures and related activities to:

- Obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control;
- Identify risks of material misstatement at the financial statement and assertion levels, whether due to fraud or error; and
- Assess inherent risk and control risk.

Appendix 3 illustrates the iterative nature of the auditor's risk identification and assessment.

Scope of this Part

This Part deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements, which provides the basis for the audit procedures undertaken to respond to assessed risks in Part 7. Part 5 sets out the auditor's obligations for planning activities, including the requirements for the engagement team discussion.

6.1. Objectives

6.1.1. The objectives of the auditor are to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement (the assessed risks).

Understanding the entity and its environment, the applicable financial reporting framework and the entity's system of internal control enables the auditor to identify and assess the risks of material misstatement. The auditor's risk identification and assessment process is iterative and dynamic.

6.2. Procedures for Identifying and Assessing Risks and Related Activities

6.2.1. The auditor shall design and perform procedures to obtain audit evidence that provides an appropriate basis for:

(a) The identification and assessment of risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels; and

(b) The design of further audit procedures.

The auditor uses professional judgement to determine the nature and extent of the procedures to be performed, which may vary with the formality of the entity's policies or procedures.

Some less complex entities, and particularly owner-managed entities, may not have established structured processes and systems or may have established processes or systems with limited documentation or a lack of consistency in how they are undertaken. When such systems and processes lack formality, the procedures described in paragraph 6.2.3. are still required.

Designing and performing procedures to obtain audit evidence in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory may involve obtaining evidence from multiple sources within and *outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of evidence.*

6.2.2. When obtaining audit evidence to identify and assess risks of material misstatement and design further audit procedures, the auditor shall consider information from:

(a) The acceptance or continuance procedures; and

(b) When applicable, other engagements performed by the engagement partner for the entity.

6.2.3. The procedures to identify and assess risks of material misstatement shall include:

(a) Enquiries of management, and other appropriate individuals within the entity;

(b) Analytical procedures; and

(c) Observation and inspection.

The auditor is not required to perform all of these procedures for each aspect of the auditor's understanding required by this Part.

Analytical procedures performed as a procedure to identify and assess risks of material misstatements help to identify inconsistencies, unusual transactions or events, and amounts, ratios, and trends that indicate matters that may have audit implications. Unusual or unexpected relationships that are identified may assist the auditor in identifying risks of material misstatement, especially risks of material misstatement due to fraud, including those relating to revenue accounts.

Analytical procedures performed as part of the risk identification and assessment may include both financial (e.g., sales price) and non-financial information (e.g., volume of goods sold) and the use of data aggregated at a high level. The auditor may perform a simple comparison of information, such as the change in account balances from balances in prior periods, to identify potential higher risk areas.

Observation and inspection may support, corroborate or contradict enquiries of management and others, and may also provide information about the entity and its environment. Where policies or procedures are not documented, or the entity' s controls lack formality, the auditor may still be able to obtain some audit evidence to support the identification and assessment of the risks of material misstatement through observation or inspection of the performance of the control.

Considerations Specific to Public Sector Entities

When making enquiries of those who may have information that is likely to assist in identifying risks of material misstatement, auditors of public sector entities may obtain information from additional sources such as from the auditors that are involved in performance or other audits related to the entity. Procedures performed by auditors of public sector entities to identify and assess risks of material misstatement may also include observation and inspection of documents prepared by management for the legislature, for example documents related to mandatory performance reporting.

Automated Tools and Techniques

If the auditor uses ATT, the auditor may design and perform audit procedures to identify and assess risks of material misstatement on relatively large volumes of data (from the general ledger, sub-ledgers or other operational data) including for analysis, observation or inspection.

6.2.4. In designing and performing procedures to identify and assess risks of material misstatement, the auditor shall consider possible risks of material misstatement arising from:

(a) Fraud or error;

(b) Related party relationships and transactions; and

(c) Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Fraud

Fraudulent financial reporting involves intentional misstatements, including omissions of amounts or disclosures in financial statements to deceive financial statement users. Fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively, such as recording fictitious journal entries close to the end of the financial reporting period.

Misappropriation of assets involves the theft of the entity's assets and is often perpetrated by employees in relatively small and immaterial amounts. However, it can also involve management who are usually more able to disguise or conceal misappropriations in ways that are difficult to detect.

Misappropriation of assets is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

In an LCE there may be different fraud risk factors than in more complex entities. On one hand, management or the owner-manager may be able to exercise more effective oversight than in a more complex entity which may compensate for more limited opportunities for segregation of duties. On the other hand, less segregation of duties and more direct involvement of management or the owner-manager may provide management or the owner-manager with a greater opportunity to override controls and commit fraud. LCEs, including owner-managers may also have different pressures or incentives to commit fraud than management in more complex entities. Appendix 4 sets out fraud risk factors relevant to less complex entities.

Related Parties

In some LCEs, related party transactions between owner-managers and close family members may be common, in particular in closely held entities. These transactions may not be conducted under normal market terms and conditions; for example, some related party transactions may be conducted with no exchange of consideration, or for consideration significantly different from fair value.

Going Concern

Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern of particular relevance to an LCE include the risk that banks and other lenders, close family members or owner-managers may cease to support the entity, as well as the possible loss of a principal supplier, major customer, key employee, or the right to operate under a license, franchise or other legal agreement.

6.2.5. If the audit opinion on the prior period's financial statements was modified, the auditor shall evaluate the effect on the current year's financial statements when identifying and assessing risks of material misstatement.

6.3. Understanding Relevant Aspects of the Entity

The auditor's understanding of relevant aspects of the entity, including the entity and its environment, the applicable financial reporting framework and the entity's system of internal *control establishes a frame of reference in which the auditor identifies and assesses the risks of material misstatement, and also informs how the auditor plans and performs further audit procedures.*

Enquiries of Management and Others Within the Entity

6.3.1. The auditor shall enquire of management and, where appropriate, those charged with governance, regarding:

(a) How the entity identifies business risks relevant to the preparation of the financial statements and how they are addressed;

(b) The risks of fraud in the entity and the controls that management has established to mitigate these risks;

(c) The nature and extent of management's direct involvement in operations or other activities that may help management to prevent or detect misstatements in accounting information or identify controls that are not operating as intended.

(d) The identity of the entity's related parties, including:

(i) Changes from the prior period;

(ii) The nature of the relationships between the entity and these related parties; and

(iii) Whether the entity entered into any transactions with these related parties during the period and, if so, the type and purpose of the transactions; and

(e) Whether the entity is in compliance with laws or regulations that may have an effect on the financial statements, and if there has been any correspondence with relevant licensing or regulatory authorities that may be relevant to the financial statements.

(f) The basis for the intended use of the going concern basis of accounting, whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and, if so, management's plans to address them.

Enquiries of management and, when applicable, those charged with governance, assist the auditor to identify and assess risks of material misstatement and respond to those risks.

Enquiries about how the entity identifies and assesses its business risks relevant to the preparation of the financial statements may assist the auditor in understanding:

- *Where there are identified business risks;*
- *Whether, and how the entity has responded to those risks;*
- *Whether the risks faced by the entity have been identified, assessed and addressed as appropriate to the nature and circumstances of the entity.*

Enquiries about the risks of material misstatement due to fraud in the entity may assist the auditor in understanding:

- *Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments;*
- *Management's process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist;*

- *Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.*

Enquiring about how management performs activities to prevent or detect misstatements in accounting information and identifies controls that are not operating as intended may include enquiring about what information management uses and the basis upon which management considers the information to be sufficiently reliable, as well as enquiring about how deficiencies are remediated. These enquiries assist the auditor to understand whether the other aspects of the entity's system of internal control are present and functioning as appropriate to the entity's circumstances considering the nature and complexity of the entity.

Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. General purpose financial statements are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realis~~z~~e its assets and discharge its liabilities in the normal course of business.

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

6.3.2. The auditor shall share relevant information obtained about the entity's related parties with other members of the engagement team.

6.3.3. The auditor shall make enquiries of management, those charged with governance, and as appropriate others within the entity, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity.

Understanding the Entity and Its Environment

6.3.4. The auditor shall obtain an understanding of:

(a) The entity's organisational structure, ownership and governance, and business model.

(b) The industry and other external factors affecting the entity.

(c) How the entity's financial performance is measured.

(d) The legal and regulatory framework applicable to the entity, and how the entity is complying with that framework.

(e) The entity's transactions and other events and conditions that may give rise to the need for, or changes in, accounting estimates to be recognised or disclosed.

(f) Agreements or relationships that may result in unrecognised liabilities or future commitments.

Understanding the entity's business model helps the auditor to understand the entity's objectives and strategy, and to understand the business risks the entity takes and faces. Understanding the entity's business risks assists the auditor in identifying risks of material misstatement, since most business risks will eventually have financial consequences and, therefore, an effect on the financial statements. When obtaining an understanding of the entity's business model, the auditor may consider how the entity uses IT.

Relevant industry factors include industry conditions such as the competitive environment, supplier and customer relationships, and technological developments. Other external factors *affecting the entity that the auditor may consider include climate-related risks, the general economic conditions, interest rates and availability of financing, and inflation or currency revaluation.*

When understanding agreements or relationships that may result in unrecognised liabilities or future commitments the auditor may consider inspecting minutes of meetings and correspondence with legal counsel and inspecting legal expense accounts.

Considerations Specific to Public Sector Entities

Entities operating in the public sector may create and deliver value in different ways to those creating wealth for owners but will still have a 'business model' with a specific objective. Matters public sector auditors may obtain an understanding of that are relevant to the business model of the entity, include:

- *Knowledge of relevant government activities, including related programmes.*
- *Programme objectives and strategies, including public policy elements.*

Understanding the Applicable Financial Reporting Framework

6.3.5. The auditor shall obtain an understanding of:

(a) The applicable financial reporting framework including, for accounting estimates, the recognition criteria, measurement bases, and the related presentation and disclosure requirements, and how these apply in the context of the nature and circumstances of the entity and its environment.

(b) The entity's accounting policies and reasons for any changes thereto.

6.3.6. The auditor shall evaluate whether the entity's accounting policies are appropriate and consistent with the applicable financial reporting framework.

Understanding the Entity's System of Internal Control

In LCEs, and in particular owner-managed entities, the way in which the entity's system of internal control is designed, implemented and maintained will vary with the entity's size and complexity. When there are no formalised processes or documented policies or procedures, the auditor is still required to obtain an understanding of how management, or where appropriate, those charged with governance prevent and detect fraud and error, and use professional judgement to determine the nature and extent of the procedures to obtain the required understanding.

Considerations Specific to Public Sector Entities

Auditors of public sector entities often have additional responsibilities with respect to internal control, for example, to report on compliance with an established code of practice or reporting on spending against budget. Auditors of public sector entities may also have responsibilities to report on compliance with law, regulation or other authority. As a result, their considerations about the system of internal control may be broader and more detailed.

Understanding the Entity's Control Environment

6.3.7. The auditor shall:

(a) Obtain an understanding of the control environment relevant to the preparation of the financial statements; and

(b) Evaluate whether the control environment provides an appropriate foundation for the entity's system of internal control considering the nature and complexity of the entity.

The auditor's understanding may include:

- *How management, and where appropriate, those charged with governance, oversee the entity, demonstrate integrity and ethical values, for example, through communication to employees regarding expectations for business practices and ethical behaviour;*
- *The culture of the entity, including whether management supports honesty and ethical behaviour;*
- *The entity's assignment of authority and responsibility;*
- *How the entity attracts, develops, and retains competent individuals; and*
- *When applicable, how owner-managers are actively involved in the business and how this may impact the risks arising from management override of controls due to lack of segregation of duties.*

The control environment provides an overall foundation for the operation of the other aspects of the entity's system of internal control, and deficiencies may undermine the rest of the entity's system of internal control. Although it does not directly prevent or detect and correct misstatements, it may influence the effectiveness of other controls in the system of internal control. The control environment includes the governance and management functions and the attitudes, awareness and actions of those charged with governance and management concerning the entity's system of internal control and its importance in the entity.

Because the control environment is foundational to the entity's system of internal control, any deficiencies could have pervasive effects on the preparation of the financial statements. Therefore, the auditor's understanding and evaluation of the control environment affects the auditor's identification and assessment of risks of material misstatement at the financial statement level, and may also affect the identification and assessment of risks of material misstatement at the assertion level, as well as the auditor's responses to the assessed risks.

Some or all aspects of the control environment may not be applicable for an LCE or may be less formalised. For example, an LCE may not have a written code of conduct but, instead, may have developed a culture that emphasises the importance of integrity and ethical behaviour through oral communication and by management example.

Some entities may be dominated by a single individual who may exercise a great deal of discretion. The actions and attitudes of that individual may have a pervasive effect on the culture of the entity, which in turn may have a pervasive effect on the control environment. Domination of management by a single individual in an LCE does not generally, in and of itself, indicate a failure by management to display and communicate an appropriate attitude regarding internal control and the financial reporting process. In some entities, the need for management authorisation can compensate for otherwise deficient controls and reduce the risk of employee fraud. However, domination of management by a single individual can be a potential control deficiency since there is an opportunity for management override of controls.

Understanding the Entity's Process to Prepare its Financial Statements

6.3.8. For significant classes of transactions, account balances and disclosures, the auditor shall obtain an understanding of the entity's process to prepare its financial statements including:

(a) The accounting records and other records that support the classes of transactions, account balances and disclosures in the financial statements;

(b) How transactions are initiated, and how information about them is recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;

(c) How information about events and conditions, other than transactions are identified, processed and disclosed; and

(d) The entity's resources, including the IT environment, relevant to (a) to (c) above.

Matters the auditor may consider when obtaining an understanding of the entity's process to prepare its financial statements relating to significant classes of transactions, account balances and disclosures include how:

- *The data or information relating to transactions, other events and conditions is processed;*
- *The integrity of that data or information is maintained; and*
- *The information processes, personnel and other resources are used.*

The auditor's understanding may be obtained in various ways and may include:

- *Enquiries of relevant personnel about the procedures used to initiate, record, process and report transactions or about the entity's financial reporting process;*
- *Inspection of policy or process manuals or other documentation of the entity's process to prepare the financial statements;*
- *Observation of the performance of the policies or procedures by entity's personnel; or*
- *Selecting transactions and tracing them through the applicable process to prepare the financial statements (i.e., performing a walk-through).*

LCEs with direct management involvement may not need extensive descriptions of accounting procedures, sophisticated accounting records, or written policies.

Automated Tools and Techniques

The auditor may also use ATT to obtain direct access to, or a digital download from, the databases in the entity's information system that store accounting records of transactions. By applying ATT to this information, the auditor may confirm the understanding obtained about how transactions flow through the information system by tracing journal entries, or other digital records related to a particular transaction, or an entire population of transactions, from initiation in the accounting records through to recording in the general ledger. Analysis of complete or large sets of transactions may also result in the identification of variations from the normal, or expected processing procedures for these transactions, which may result in the identification of risks of material misstatement.

6.3.9. For accounting estimates and related disclosures for significant classes of transactions, account balances or disclosures, the auditor shall obtain an understanding of how management:

(a) Identifies, selects and applies relevant methods, assumptions and data that are appropriate in the context of the applicable financial reporting framework, including identification of significant assumptions;

(b) Understands the degree of estimation uncertainty and addresses such uncertainty, including selecting a point estimate and related disclosures for inclusion in the financial statements; and

(c) Reviews the outcome(s) of previous accounting estimates and responds to the results of that review.

6.3.10. The auditor shall evaluate whether the entity's process to prepare its financial statements, including for accounting estimates, appropriately supports the preparation of its financial statements in accordance with the applicable financial reporting framework.

Understanding the Services Provided by a Service Organisation

6.3.11. If the entity uses the services of a service organisation and those services are relevant to the entity's process to prepare its financial statements, the auditor's understanding in accordance with paragraph 6.3.8. shall include:

(a) The nature of the services provided by the service organisation and the significance of those services to the entity including the effect thereof on the user entity's system of internal control;

(b) The nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organisation;

(c) The degree of interaction between the activities of the service organisation and those of the user entity; and

(d) The relevant contractual terms for the activities undertaken by the service organisation.

The auditor's understanding shall be sufficient to provide an appropriate basis for the identification and assessment of the risks of material misstatement.

LCEs may often use external bookkeeping services ranging from the processing of certain transactions (for example, processing of payroll and payment of payroll taxes) and maintenance of their accounting records to the preparation of their financial statements. The use of such a service organisation for the preparation of its financial statements does not relieve management of the less complex entity and, where appropriate, those charged with governance of their responsibilities for the financial statements.

The services of a service organisation are relevant to the entity's process to prepare its financial statements when those services, and the controls over them, are part of, or affect the process described in paragraph 6.3.8.

The auditor's understanding helps to inform the auditor about the nature and significance of the services provided by the service organisation and their effect on the user entity's system of internal control, which affect the nature and extent of work to be performed by the auditor regarding the services provided by a service organisation. The significance of the controls of the service organisation relative to those of the entity depends on the degree of interaction between the service organisation's activities and those of the entity. For example, the service organisation may process and account for transactions that are still required to be authorised by the entity, alternatively the entity may rely on such controls being affected at the service organisation.

The service organisation may have engaged a service auditor to provide a report on the description and design (a type 1 report), or on the description, design and operating effectiveness (a type 2 report), of controls at the service organisation. Such reports may provide information for the auditor in obtaining an understanding of the user entity's system of internal control. However, this standard has not been designed for, and therefore does not include requirements to address, the auditor's use of such reports as audit evidence about the design, implementation or operating effectiveness of controls at the service organisation.

Understanding the Entity's Control Activities

6.3.12. The auditor shall obtain an understanding of the entity's control activities by identifying controls that address risks of material misstatement at the assertion level as set out below. For each control identified in (a)—(e) below, the auditor shall perform procedures, beyond enquiry, to evaluate whether the control is designed effectively and has been implemented:

(a) Controls that address risks determined to be significant risks;

(b) Controls over journal entries, including journal entries to record non-recurring, unusual transactions or adjustments;

(c) Controls, if any, for which the auditor plans to test the operating effectiveness of controls in determining the nature, timing and extent of substantive testing, including those controls that address risks for which substantive procedures alone are not enough to obtain sufficient appropriate audit evidence; and

(d) Controls, if any, related to significant transactions and arrangements with related parties, and significant transactions and arrangements outside the normal course of business.

(e) Controls, if any, in (a) to (d) at the user entity related to the services provided by the service organisation, including those that are applied to the transactions processed by the service organisation.

The auditor's required understanding of the entity's control activities involves identifying specific controls, as appropriate in the entity's circumstances, and evaluating their design and determining whether the controls have been implemented. Evaluating the design and implementation of controls includes the evaluation of whether the control is designed effectively to address the risk of material misstatement at the assertion level, or effectively designed to support the operation of other controls, and the determination whether the control has been implemented.

This assists the auditor’s understanding of management’s approach to addressing certain risks, and therefore provides a basis for the design and performance of further audit procedures responsive to these risks even when the auditor does not plan to test the operating effectiveness of identified controls.

Journal Entries

Controls over journal entries are expected to be identified for all audits because the manner in which an entity incorporates information from transaction processing into the general ledger ordinarily involves the use of journal entries, whether standard or non-standard, or automated or manual. The extent to which other controls are identified may vary based on the nature of the entity and the auditor’s planned approach to further audit procedures. For example, the entity’s information system may not be complex and the auditor may not intend to test the operating effectiveness of controls. Further, the auditor may not have identified any significant risks or any other risks of material misstatement for which it is necessary for the auditor to evaluate the design of controls and determine that they have been implemented. In such an audit, the auditor may determine that there are no identified controls other than the entity’s controls over journal entries.

Related Parties

Controls in LCEs are likely to be less formal and such entities may have no documented processes for dealing with related party relationships and transactions. An owner-manager may mitigate some of the risks arising from related party transactions, or potentially increase those risks, through active involvement in all the main aspects of the transactions. For such entities, the auditor may obtain an understanding of the related party relationships and transactions, and any controls that may exist over these, through enquiry of management combined with other procedures, such as observation of management’s oversight and review activities, and inspection of available relevant documentation.

6.3.13. For the controls identified in paragraph 6.3.12. the auditor shall:

(a) Identify the IT applications and other aspects of the IT environment that are subject to risks arising from the use of IT and what those related risks are;

(b) Identify the entity's general IT controls that respond to those identified risks; and

(c) By performing procedures in addition to enquiries, evaluate whether the identified general IT controls are designed effectively and have been implemented.

The auditor's understanding of the entity's process to prepare the financial statements (which may be done by performing walk-through procedures) includes the IT environment relevant to the flows of transactions and processing of information. This is because the entity's use of IT applications or other aspects of the IT environment may give rise to risks arising from the use of IT (i.e., the susceptibility of information processing controls to ineffective design or operation, or risks to the integrity of information).

The extent of the auditor's understanding of the IT processes, including the extent to which the entity has general IT controls in place, will vary with the nature and the circumstances of the entity and its IT environment, as well as based on the nature and extent of controls identified by the auditor. The number of IT applications that are subject to risks arising from the use of IT also will vary based on these factors. General IT controls support the continued proper operation of the IT environment, including the continued effective functioning of information processing controls and the integrity of information.

Deficiencies Within the Entity's System of Internal Control

6.3.14. The auditor shall determine whether one or more deficiencies have been identified in the entity's system of internal control and, if so, whether, individually or in combination, they constitute significant deficiencies.

In understanding the entity's system of internal control, the auditor may determine that certain of the entity's policies or procedures are not appropriate to the nature and circumstances of the entity. Such a determination may be an indicator that assists the auditor in identifying deficiencies in internal control. If the auditor has identified one or more deficiencies, the auditor may consider the effect of those deficiencies on the identification and assessment of risks of material misstatement and on the design of further audit procedures.

The auditor uses professional judgement in determining whether a deficiency represents a significant deficiency in internal control.

6.4. Identifying and Assessing the Risks of Material Misstatement

Risks of material misstatement are identified and assessed by the auditor to determine the nature, timing and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence. This evidence enables the auditor to express an opinion on the financial statements at an acceptably low level of audit risk.

6.4.1. The auditor shall identify and assess the risks of material misstatement, due to fraud or error, at:

(a) The financial statement level. In doing so, the auditor shall determine whether they affect risks at the assertion level and consider the nature and extent of the pervasive effect of identified risks on the financial statements; and

(b) The assertion level for classes of transactions, account balances, and disclosures. In doing so, the auditor shall:

(i) Determine the relevant assertions and related significant classes of transactions, account balances and disclosures; and

(ii) Assess inherent risk for identified risks of material misstatement at the assertion level by assessing the likelihood and magnitude of misstatement.

Financial Statement Level Risks

Risks of material misstatement at the financial statement level refer to risks that relate pervasively to the financial statements as a whole, and potentially affect many assertions. Risks of this nature are not necessarily risks related to specific assertions at the class of transactions, account balance or disclosure level (e.g., risk of management override of controls).

Assertion Level Risks

In identifying and assessing the risks of material misstatement, the auditor uses assertions to consider the different types of potential misstatements that may occur. Appendix 5 sets out assertions that may be used by the auditor in considering different types of misstatements at the assertion level.

An assertion about a class of transactions, account balance or disclosure is a relevant assertion when it has an identified risk of material misstatement. The determination of whether an assertion is a relevant assertion is made before consideration of any related controls (i.e., the inherent risk) and is based on the auditor's consideration of misstatements that have a reasonable possibility of both occurring (i.e., likelihood), and being material if they were to occur (i.e., magnitude). Significant classes of transactions, account balances and disclosures are those for which there is one or more relevant assertions. Determining relevant assertions and the significant classes of transactions, account balances and disclosures provides a basis for the identification and assessment of risks of material misstatement.

Assessing Inherent Risk

The assessed inherent risk for a particular risk of material misstatement at the assertion level represents a judgement within a range, from lower to higher, on the spectrum of inherent risk.

In assessing inherent risk, the auditor uses professional judgement in determining the significance of the combination of the likelihood and magnitude of a misstatement on the spectrum of inherent risk. The judgement about where in the range inherent risk is assessed may vary based on the nature, size or circumstances of the entity, and takes into account the assessed likelihood and magnitude of the misstatement.

In considering the likelihood of a misstatement, the auditor considers the possibility that a misstatement may occur. In considering the magnitude of a misstatement, the auditor considers the qualitative and quantitative aspects of the possible misstatement (i.e., misstatements in assertions about classes of transactions, account balances or disclosures may be judged to be material due to nature, size or circumstances).

When assessing inherent risk, factors relating to the preparation of information required by the applicable financial reporting framework that affect the susceptibility of assertions to misstatement may include:

- *Complexity;*
- *Subjectivity;*
- *Change;*
- *Uncertainty (for accounting estimates this is estimation uncertainty); or*

- *Susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk.*

The presence of these factors may give rise to higher inherent risk and may be an indication that the ISA (NZ) for LCE is not appropriate for the audit.

When risks of material misstatement relate more pervasively to the financial statements as a whole, and potentially affect many assertions, the risks of material misstatement are assessed at the financial statement level. When assessing risk at the assertion level, the auditor considers the degree to which the risks of material misstatement at the financial statement level affects the assessment of inherent risks for risks of material misstatement at the assertion level.

In identifying and assessing risks of material misstatement, the results of the engagement team discussion and any enquiries relating to fraud and going concern are relevant.

Considerations Specific to Public Sector Entities

In exercising professional judgement as to the assessment of the risk of material misstatement, public sector auditors may consider the complexity of the regulations and directives, and the risks of non-compliance with authorities.

6.4.2. In identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions, or assertions give rise to such risks.

When identifying and assessing risks of material misstatement due to fraud, the auditor may consider whether unusual or unexpected relationships have been identified in performing analytical procedures, including those related to revenue accounts.

The presumption that there are risks of fraud in revenue recognition may be rebutted. For example, the auditor may conclude, based on the audit evidence obtained, that there is no risk of material misstatement due to fraud relating to revenue recognition in the case where there is a single type of simple revenue transaction, for example, leasehold revenue from a single rental property.

6.4.3. In identifying and assessing risks of material misstatement relating to an accounting estimate and related disclosure at the assertion level, the auditor shall consider the degree to which the accounting estimate is subject to estimation uncertainty, and the degree to which the following are affected by complexity, subjectivity, change or management bias:

(a) The selection and application of the method, the assumptions and data used; and

(b) The selection of management's point estimate and related disclosures.

Significant Risks

6.4.4. The auditor shall determine whether any of the assessed risks of material misstatement are, in the auditor's professional judgement, a significant risk.

The determination of which of the assessed risks of material misstatement are close to the upper end of the spectrum of inherent risk, and are therefore significant risks, is a matter of professional judgement, unless the risk is of a type specified to be treated as a significant risk as set out in paragraph 6.4.6. Being close to the upper end of the spectrum of inherent risk will differ from entity to entity, and will not necessarily be the same for an entity period on period. It may depend on the nature and circumstances of the entity for which the risk is being assessed.

6.4.5. The auditor shall determine whether the assessed risks associated with related party relationships and transactions, and assessed risks relating to accounting estimates are significant risks.

6.4.6. The auditor shall treat the following as significant risks:

(a) Risk of material misstatement from management override of controls;

(b) Any other risks of material misstatement due to fraud, including risks that the auditor identified in accordance with paragraph 6.4.2.; or

(c) Identified significant related party transactions outside the entity's normal course of business.

Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and therefore a significant risk.

Assessing Control Risk

6.4.7. The auditor shall assess control risk if:

(a) The auditor has determined that substantive procedures alone cannot provide sufficient appropriate audit evidence for any of the risks of material misstatement at the assertion level; or

(b) The auditor otherwise plans to test the operating effectiveness of controls.

Otherwise, the assessed risk of material misstatement is the same as the assessment of inherent risk.

The auditor's plans to test the operating effectiveness of controls is based on the expectation that controls are operating effectively, and this will form the basis of the auditor's assessment of control risk.

The initial expectation of the operating effectiveness of controls is based on the auditor's evaluation of the design, and the determination of implementation, of the controls identified in paragraphs 6.3.12. and 6.3.13.(b). Once the auditor has tested the operating effectiveness of the controls in accordance with Part 7, the auditor will be able to confirm the initial expectation about the operating effectiveness of controls. If the controls are not operating effectively as expected, then the auditor will need to revise the control risk assessment.

The auditor's assessment of control risk may be performed in different ways depending on preferred audit techniques or methodologies, and may be expressed in different ways. The control risk assessment may be expressed using qualitative categories (for example, control risk assessed as maximum, moderate, minimum) or in terms of the auditor's expectation of how effective the control(s) is in addressing the identified risk, that is, the planned reliance on the effective operation of controls. For example, if control risk is assessed as maximum, the auditor contemplates no reliance on the effective operation of controls. If control risk is assessed at less than maximum, the auditor contemplates reliance on the effective operation of controls.

Where routine business transactions are subject to highly automated processing with little or no manual intervention, it may not be possible to perform only substantive procedures in relation to the risk. This may be the case in circumstances where a significant amount of an entity's information is initiated, recorded, processed, or reported only in electronic form. In such cases:

- *The sufficiency and appropriateness of audit evidence usually depend on the effectiveness of controls over its accuracy and completeness.*

- *The potential for improper initiation or alteration of information to occur and not be detected may be greater if appropriate controls are not operating effectively.*

Evaluation of the Procedures to Identify and Assess Risks of Material Misstatement and Revision of Risk Assessment

6.4.8. The auditor shall evaluate whether the audit evidence obtained from procedures to identify and assess the risks of material misstatement provides an appropriate basis for the identification and assessment of the risks of material misstatement. If not, the auditor shall perform additional procedures until audit evidence has been obtained to provide such a basis. In identifying and assessing the risks of material misstatement, the auditor shall consider all audit evidence obtained from the procedures to identify and assess the risks of material misstatement, whether corroborative or contradictory to assertions made by management.

6.4.9. The auditor's assessment of the risks of material misstatement at the assertion level may change during the course of the audit as additional audit evidence is obtained. In circumstances where the auditor obtains audit evidence from performing further audit procedures, or if new information is obtained, either of which is inconsistent with the audit evidence on which the auditor originally based the assessment, the auditor shall revise the assessment and modify the further planned audit procedures accordingly.

6.4.10. The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

If events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are identified after the auditor's risk assessments are made, the auditor's assessment of the risks of material misstatement may need to be revised.

6.5. Evaluation of the Appropriateness of Using the ISA (NZ) for LCE

6.5.1. Based on the procedures performed to identify and assess the risks of material misstatement, the engagement partner shall evaluate whether the ISA (NZ) for LCE continues to be appropriate for the nature and circumstances of the entity being audited.

The auditor's original determination to use the ISA (NZ) for LCE may change as new information or additional audit evidence is obtained when performing procedures to identify and assess risks of material misstatement. In circumstances where audit evidence, or new information, is obtained, which is inconsistent with the auditor's original determination for using the ISA (NZ) for LCE, the auditor may need to change the original determination to use the ISA (NZ) for LCE, and transition to using the ISAs (NZ) or other applicable standards as appropriate.

6.6. Specific Communication Requirements

6.6.1. The auditor shall communicate with management, and where appropriate, those charged with governance, the significant risks identified by the auditor.

6.7. Specific Documentation Requirements

In addition to the general documentation requirements in Part 2.4. which apply throughout the audit engagement, specific matters to be documented relevant to this Part are described below.

The form and extent of documentation for the identification and assessment of the risks of material misstatement may be simple and relatively brief, and is influenced by:

- *The nature, size and complexity of the entity and its system of internal control.*
- *Availability of information from the entity.*

- *The audit methodology and technology used in the course of the audit.*

It is not necessary to document the entirety of the auditor's understanding of the entity and matters related to it, but rather apply the principles in Part 2.4. and the matters noted below.

6.7.1. The auditor shall include the following in the audit documentation:

(a) Key elements of the understanding obtained regarding each of the aspects of the entity and its environment, the applicable financial reporting framework, the entity's system of internal control, and the procedures performed to identify and assess risks of material misstatement;

(b) The names of the identified related parties (including changes from prior period) and the nature of the related party relationships;

(c) The identified and assessed risks of material misstatement, including risks due to fraud, at the financial statement level and at the assertion level, including significant risks and risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence, and the rationale for the significant judgements made;

(d) If applicable, the reasons for the conclusion that there is not a risk of material misstatement due to fraud related to revenue recognition;

(e) The controls set out in paragraphs 6.3.12. and 6.3.13. and the evaluation whether the control is designed effectively and determination whether the control has been implemented; and

(f) For accounting estimates, key elements of the auditor's understanding of the accounting estimates, including controls as appropriate, the linkage of the assessed risks of material misstatements to the auditor's further procedures, and any indicators of management bias and how those were addressed.

6.7.2. The auditor shall document the basis for the evaluation about whether the ISA (NZ) for LCE continues to be appropriate for the nature and circumstances of the entity being audited.

7. Responding to Assessed Risks of Material Misstatement

Content of this Part

Part 7 contains content related to the:

- Design and implementation of overall responses to assessed risks of material misstatement at the financial statement level;
- Design and implementation of responses to the assessed risks of material misstatement at the assertion level (i.e., design and performance of further audit procedures). Further procedures include substantive procedures (tests of detail and substantive analytical procedures) and tests of controls (as appropriate), and are expanded on in this Part; and
- Procedures for specific topics when responding to assessed risks of material misstatement.

Scope of this Part

This Part sets out the specific requirements for obtaining audit evidence through responding to assessed risks of material misstatement. Part 2 also sets out the broad requirements for audit evidence. In complying with the requirements in this Part, the auditor may find it useful to refer to the following that set out relevant matters:

- Fraud – see Part 1.5.
- Laws and regulations – see Part 1.6.
- Related parties – see Part 1.7.
- Information to be used as audit evidence – see Part 2.3.

7.1. Objectives

7.1.1. The objectives of the auditor are to:

(a) Obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing responses to those risks;

(b) Respond appropriately to risks of material misstatement arising from fraud or suspected fraud;

(c) Obtain sufficient appropriate audit evidence regarding management's use of the going concern assumption and related disclosures; and

(d) Respond appropriately to identified or suspected non-compliance with law or regulation that have been identified during the audit.

7.2. Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Financial Statement Level

7.2.1. The auditor shall design and implement overall responses to address the assessed risks of material misstatement at the financial statement level, whether due to fraud or error.

The auditor's overall responses at the financial statement level, for example, making general changes to the nature, timing or extent of audit procedures, or adjustments to resources assigned or using experts, are based on those risks that relate pervasively to the financial statements as a whole. These may include, for example, risks arising from industry, regulatory and other external factors, or matters related broadly to the entity's basis of accounting or accounting policies.

In particular, the auditor's overall responses also are influenced by the auditor's understanding of the control environment. The control environment provides an overall foundation for the operation of the other aspects of the entity's system of internal control. Although the control environment does not directly prevent, or detect and correct misstatements, it may influence the effectiveness of other controls in the system of internal control. Therefore, an effective control environment may allow the auditor to have more confidence in internal control and the reliability of audit evidence generated internally within the entity.

Deficiencies that have been identified in the control environment when obtaining an understanding of the entity's system of internal control, however, have the opposite effect and may result in the need for more extensive audit evidence from substantive procedures. A weak control environment also impacts the work that may be undertaken at an interim period.

7.2.2. In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall:

(a) Evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings; and

(b) Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures.

Incorporating an element of unpredictability may be achieved by, for example:

- *Performing substantive procedures on selected account balances and assertions not otherwise tested due to their materiality or risk.*
- *Adjusting the timing of audit procedures from that otherwise expected.*
- *Using different sampling methods.*
- *Performing audit procedures at different locations or at locations on an unannounced basis.*

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

7.2.3. In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall assign and supervise personnel taking account of the knowledge, skill, and ability of the individuals to be given significant engagement responsibilities and the auditor's assessment of the risks of material misstatement due to fraud for the engagement.

7.3. Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level

7.3.1. The auditor shall design and perform further audit procedures whose nature, timing and extent are based on, and responsive to, assessed risks, whether due to fraud or error, at the assertion level.

Further audit procedures comprise tests of controls and substantive procedures. The auditor may choose to perform tests of controls or they may be required in specific circumstances (see paragraph 7.3.2.(d)). Substantive procedures include tests of details and substantive analytical procedures.

Further audit procedures are responsive to the assessed risk of material misstatement at the assertion level, and provide a clear linkage between the auditor's further procedures and the risk *assessment. If the assessed risks of material misstatement are due to fraud risks at the assertion level, the nature, timing and extent of audit procedures may need to be changed to obtain audit evidence that is more relevant and reliable or to obtain additional corroborative information.*

The auditor need not design and perform further audit procedures where the assessment of the risk of material misstatement is below the acceptably low level. However, as required by paragraph 7.3.14. irrespective of the assessed risk, the auditor shall perform substantive procedures for each material class of transactions, account balance, and disclosure.

7.3.2. In designing the further audit procedures, the auditor shall:

(a) Consider the reasons for the assessment given to the risk of material misstatement at the assertion level for each significant class of transactions, account balance, or disclosure, including:

(i) The likelihood and magnitude of misstatement due to the characteristics of the significant class of transactions, account balance, or disclosure (that is, the inherent risk); and

(ii) Whether the risk assessment takes account of controls that address the risk of material misstatements (that is, the control risk), thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively (where the auditor plans to test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures);

(b) Obtain more persuasive audit evidence the higher the auditor's assessment of risk;

(c) In designing and performing tests of controls, obtain more persuasive audit evidence the greater the reliance the auditor places on the operating effectiveness of controls; and

(d) If the auditor intends to test the operating effectiveness of controls or when substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level, design and perform tests of controls, to obtain sufficient appropriate audit evidence as to the operating effectiveness of such controls.

In some audits, the auditor may not be able to identify many controls, or the extent of documentation prepared by the entity to which they exist or operate may be limited. In such cases, it may be more efficient for the auditor to perform further audit procedures that are primarily substantive procedures.

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

Considerations Specific to Public Sector Entities

For the audits of public sector entities, the audit mandate and any other special auditing requirements may affect the auditor's consideration of the nature, timing and extent of further audit procedures.

7.3.3. When designing tests of controls and tests of details, the auditor shall determine the means of selecting items for testing that are effective in meeting the purpose of the audit procedure.

In selecting items for testing, the auditor is required by paragraph 2.3.1. to determine the relevance and reliability of information to be used as audit evidence; the other aspect of effectiveness (sufficiency) is an important consideration in selecting items to test. The means *available to the auditor for selecting items for testing are selecting all items (100% examination), selecting specific items and audit sampling.*

Tests of Controls

7.3.4. In designing and performing tests of controls, the auditor shall perform audit procedures in combination with enquiry to obtain audit evidence about the operating effectiveness of controls, including:

(a) How the controls were applied at relevant times during the period;

(b) The consistency with which they were applied; and

(c) By whom or by what means they were applied.

7.3.5. The auditor shall determine whether the controls to be tested depend on other controls (indirect controls), and, if so, consider whether it is necessary to obtain evidence about the effective operation of the indirect controls.

7.3.6. The auditor shall test controls for the period of time, or throughout the period, for which the auditor intends to rely on those controls in order to provide an appropriate basis for the auditor's reliance.

7.3.7. If the auditor obtains audit evidence about the operating effectiveness of controls in the interim period, the auditor shall obtain additional audit evidence about any subsequent significant changes and determine the additional audit evidence to be obtained for the remaining period.

7.3.8. If the auditor intends to use audit evidence about the operating effectiveness of controls obtained in previous periods, the auditor shall:

(a) Consider:

(i) The effectiveness of the system of internal control;

(ii) The risks from the characteristics of the control (e.g., manual or automated);

(iii) The effectiveness of general IT controls;

(iv) The effectiveness of the control and its application by the entity;

(v) Whether the lack of a change in a particular control poses a risk due to changing circumstances; and

(vi) The risk of material misstatement and the extent of reliance on the control planned; and

(b) Establish the continuing relevance of that evidence by obtaining audit evidence about whether significant changes in those controls have occurred subsequent to the previous audit. If there have been significant changes the auditor shall test the control in the current period, otherwise at least once every third audit.

7.3.9. If the auditor intends to rely on a control that is a control over a significant risk, the auditor shall test the control in the current period.

7.3.10. When evaluating the operating effectiveness of controls upon which the auditor intends to rely, the auditor shall evaluate whether misstatements that have been detected by substantive procedures indicate that controls are not operating effectively. The absence of misstatements detected by substantive procedures, however, does not provide audit evidence that controls related to the assertion being tested are effective.

7.3.11. If deviations from controls upon which the auditor intends to rely are detected, the auditor shall make specific enquiries to understand these matters and their potential consequences, and shall determine whether:

(a) The tests of controls provide an appropriate basis for reliance on the controls;

(b) Additional tests of control are necessary; or

(c) The risks of material misstatement need to be addressed using substantive procedures.

Substantive Procedures

7.3.12. The auditor's substantive procedures shall include substantive procedures specifically responsive to significant risks. When the response to a significant risk consists only of substantive procedures, those procedures shall include tests of details.

7.3.13. The auditor's substantive procedures shall include audit procedures related to the financial statement closing process, including:

(a) Agreeing or reconciling information in the financial statements with the underlying accounting records, including agreeing or reconciling information in disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers; and

(b) Examining material journal entries and other adjustments made during the course of preparing the financial statements.

7.3.14. Irrespective of the assessed risks, substantive procedures shall be performed for each material class of transactions, account balance, and disclosure.

Paragraph 7.3.1. requires the auditor to design and perform further audit procedures whose nature timing and extent are based on, and responsive to assessed risks of material misstatement at the assertion level. Because of this, substantive procedures may have already been performed for significant classes of transactions, account balances and disclosures.

Not all assertions within a material class of transactions, account balance or disclosure are required to be tested. Rather, in designing the substantive procedures to be performed, the auditor's consideration of the assertion(s) in which, if a misstatement were to occur, there is a reasonable possibility of the misstatement being material, may assist in identifying the appropriate nature, timing and extent of the procedures to be performed.

7.3.15. If the auditor performed substantive procedures at an interim date, the auditor shall cover the remaining period by performing:

(a) Substantive procedures, combined with tests of controls for the intervening period; or

(b) If the auditor determines that it is sufficient, further substantive procedures only, that provide a reasonable basis for extending the audit conclusions from the interim date to the period end.

Substantive Analytical Procedures

7.3.16. If the auditor uses substantive analytical procedures to obtain audit evidence, the auditor shall:

(a) Determine the suitability of the substantive analytical procedure for the purpose of the test and for the given assertion(s);

(b) Evaluate the reliability of data from which the auditor's expectation of recorded amounts or ratios is developed, taking account of source, comparability, and nature and relevance of information available, and controls over its preparation;

(c) Develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify material misstatements;

(d) Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation being required; and

(e) Investigate fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount by enquiring of management and obtaining appropriate audit evidence relevant to management's responses and performing additional audit procedures as necessary in the circumstances.

Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time. The application of planned analytical procedures is based on the expectation that relationships among data exist and continue in the absence of known conditions to the contrary. However, the suitability of a particular analytical procedure will depend upon the auditor's assessment of how effective it will be in detecting a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated.

The auditor's determination of the amount of difference from the expectation that can be accepted without further investigation is influenced by materiality, taking account of the possibility that a misstatement, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated. As the assessed risk increases, the amount of difference considered acceptable without investigation decreases in order to achieve the desired level of persuasive evidence.

Automated Tools and Techniques

Analytical procedures can be performed using a number of tools or techniques, which may also be automated. The evolution of technology, coupled with the increase in number and variety of sources of data, may create more opportunities for the auditor to use ATT in performing substantive analytical procedures.

There are countless information sources available (e.g., social media, free access information sources) to the auditor, and some are more reliable than others. The use of ATT to perform substantive analytical procedures allows the auditor to incorporate information from more sources both internal and external to the entity and also to use much greater volumes of data in the analyses. Nonetheless, the auditor's responsibility for addressing the reliability of data used in substantive analytical procedures is unchanged.

Audit Sampling

7.3.17. If the auditor uses audit sampling when responding to assessed risks of material misstatement as a means for selecting items for testing, the auditor shall:

(a) Consider the purpose of the audit procedures and the characteristics of the population from which the sample will be drawn.

(b) Determine a sample size sufficient to reduce sampling risk to an acceptably low level.

(c) Select items in a way that each sampling unit in the population has a chance of selection.

(d) Perform audit procedures, appropriate to the purpose, on each item selected. If the procedure is not applicable to the selected item, the auditor shall perform the procedure on a replacement item. If the auditor is unable to apply the designed audit procedures, or suitable alternative procedures, to a selected item, the auditor shall treat that item as a deviation from the prescribed control (in the case of tests of controls) or a misstatement (in the case of tests of details).

(e) Investigate the nature and cause of any deviations or misstatements identified and evaluate their possible effect on the purpose of the audit procedure and on other areas of the audit.

Sample Design

When designing an audit sample, the auditor's considerations may include:

- *The purpose of the test, the combination of audit procedures that is likely to best achieve the purpose, what items to select to meet the purpose and the assertion being addressed.*
- *The nature of the audit evidence sought and the possible deviation or misstatement conditions or other characteristics relating to that audit evidence will assist the auditor in defining what constitutes a deviation or misstatement and what population to use for sampling.*

The auditor's considerations of the characteristics of a population may include:

- *Whether the population of items to be tested is appropriate to achieve the test objectives. Sampling will not identify or test items that are not already included within the population. For example, a sample of receivable balances may be used to test the existence of receivables, but such a population would not be appropriate for testing the completeness of receivables.*
- *The size of the population. In some cases, a statistical conclusion may not be drawn if the population to be tested is too small to sample.*

Audit sampling can be applied using either non-statistical or statistical sampling approaches. Statistical conclusions can be drawn from statistical samples. Non-statistical samples may be used in combination with other audit procedures that address the same assertion.

Sample Size

The level of sampling risk that the auditor is willing to accept affects the sample size required. The lower the risk the auditor is willing to accept, the greater the sample size will need to be. Appendix 6 includes examples of factors influencing the sample size for tests of controls and test of details.

Selection of Items for Testing

With statistical sampling, sample items are selected in a way that each sampling unit has a known probability of being selected. With non-statistical sampling, judgement is used to select sample items. It is important that the auditor selects a representative sample, so that bias is avoided, by choosing sample items which have characteristics typical of the population.

The principal methods of selecting samples are the use of random selection, systematic selection and haphazard selection.

7.3.18. In the extremely rare circumstances when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, the auditor shall obtain a high degree of certainty that such misstatement or deviation is not representative of the population. The auditor shall obtain this degree of certainty by performing additional audit procedures to obtain sufficient appropriate audit evidence that the misstatement or deviation does not affect the remainder of the population.

7.3.19. For tests of details, the auditor shall project misstatements found in the sample to the population.

A misstatement that has been established to be an anomaly need not be projected across the remaining population.

7.3.20. The auditor shall evaluate:

(a) The results of the sample; and

(b) Whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.

For tests of controls, an unexpectedly high sample deviation rate may lead to an increase in the assessed risk of material misstatement, unless further audit evidence substantiating the initial assessment is obtained. For tests of details, an unexpectedly high misstatement amount in a sample may cause the auditor to believe that a class of transactions or account balance is materially misstated, in the absence of further audit evidence that no material misstatement exists. Also, in the case of tests of details, the projected misstatement plus anomalous misstatement, if any, is the auditor's best estimate of misstatement in the population.

If the auditor concludes that audit sampling has not provided a reasonable basis for conclusions about the population that has been tested, the auditor may:

- *Request management to investigate misstatements that have been identified and the potential for further misstatements and to make any necessary adjustments; or*
- *Tailor the nature, timing and extent of those further audit procedures to best achieve the required assurance. For example, in the case of tests of controls, the auditor might extend the sample size, test an alternative control or modify related substantive procedures.*

External Confirmations

7.3.21. The auditor shall consider whether external confirmation procedures are to be performed as substantive procedures.

External confirmation procedures frequently are relevant when addressing assertions associated with account balances and their elements, but need not be restricted to these items. For example, the auditor may request external confirmation of the terms of agreements, contracts, or transactions between an entity and other parties. External confirmation procedures also may be performed to obtain audit evidence about the absence of certain conditions.

7.3.22. When using external confirmation procedures, the auditor shall maintain control over:

(a) Determining the information to be confirmed or requested and selecting the appropriate confirming party;

(b) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and

(c) Sending the requests, including follow-up requests when applicable, to the confirming party.

7.3.23. If management refuses to allow the auditor to send a confirmation request, the auditor shall:

(a) Enquire as to management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness;

(b) Evaluate the implications of management's refusal on the auditor's assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures; and

(c) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence.

7.3.24. If the auditor concludes that management's refusal to allow the auditor to send a confirmation request is unreasonable, or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, the auditor shall communicate with those charged with governance. The auditor also shall determine the implications for the audit and the auditor's opinion.[15]

7.3.25. If the auditor identifies factors that give rise to doubts about the reliability of the response to a confirmation request, the auditor shall obtain further audit evidence to resolve those doubts. If the auditor determines that a response to a confirmation request is not reliable, the auditor shall evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud, and on the related nature, timing, and extent of other audit procedures.

7.3.26. In the case of each non-response, the auditor shall perform alternative audit procedures to obtain relevant and reliable audit evidence.

7.3.27. The auditor shall investigate exceptions to determine whether they are indicative of misstatements.

7.3.28. The auditor shall evaluate whether the results of the external confirmation procedures, if any, provide relevant and reliable audit evidence, or whether further audit evidence is necessary.

7.4. Specific Focus Areas

Going Concern

The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude:

- *On the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements; and*
- *Based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.*

These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.

7.4.1. The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern.[16]

In accordance with the requirements of this Part, the auditor needs to evaluate management's assessment of the entity's ability to continue as a going concern. In many cases, the management of less complex entities may not have prepared a detailed assessment of the entity's ability to continue as a going concern, but instead may rely on in-depth knowledge of the business and anticipated future prospects. In such cases, it may be appropriate to discuss the medium- and long-term financing of the entity with management, provided that management's plans can be corroborated by sufficient documentary evidence and are consistent with the auditor's understanding of the entity. Therefore, the auditor's evaluation of going concern, for example, may be satisfied by discussion, enquiry and inspection of supporting documentation.

15 For the effect on the auditor's report see Part 9, paragraph 9.5.14.

16 For the effect on the auditor's report see Part 9, paragraph 9.5.17.

Continued support by owner-managers is often important to a less complex entity's ability to continue as a going concern. Where a LCE is largely financed by a loan from the owner-manager, it may be important that these funds are not withdrawn. Where an entity is dependent on additional support from the owner-manager, the auditor may evaluate the owner-manager's ability to meet the obligation under the support arrangement. In addition, the auditor may request written confirmation of the terms and conditions attaching to such support and the owner-manager's intention or understanding.

7.4.2. [Amended by the NZAuASB]

NZ7.4.2. In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall:

(a) Cover the same period as used by management, as required by the applicable financial reporting framework. If that period is less than twelve months from the date of the auditor's current report, the auditor shall ask management to extend the period. If management does not make or extend its assessment, the auditor shall consider the implications for the auditor's report. [17]

(b) Consider whether management's assessment includes all relevant information of which the auditor is aware of as a result of the audit.

The auditor also remains alert to the possibility that there are known events, scheduled or otherwise, or conditions that will occur beyond the period of assessment used by management that may bring into question management's use of the going concern basis of accounting in preparing the financial statements. The further into the future the events or conditions are, the more significant the going concern issues need to be before the auditor takes further action.

7.4.3. The auditor shall enquire of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern.

7.4.4. 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 a material uncertainty exists through performing additional procedures, including consideration of mitigating factors. These procedures shall include:

(a) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.

(b) Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation, and whether management's plans are feasible in the circumstances.

(c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions:

(i) Evaluating the reliability of the underlying data generated to prepare the forecast; and

(ii) Determining whether there is adequate support for the assumptions underlying the forecast.

(d) Considering whether any additional facts or information have become available since the date on which management made its assessment.

[17] For the effect on the auditor's report see Part 9, paragraph 9.5.20.

A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's professional judgement, appropriate disclosure of the nature and implications of the uncertainty is, for a fair presentation framework, necessary for the fair presentation of the financial statements or, for a compliance framework, necessary for the financial statements not to be misleading.

7.4.5. If there is significant delay in the approval of the financial statements by management or those charged with governance after the date of the financial statements, the auditor shall enquire as to the reasons for the delay. If the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform additional audit procedures as necessary, as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty.

Management Override of Controls

7.4.6. The auditor shall design and perform audit procedures to:

(a) Test the appropriateness of manual and automated journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, including:

(i) Making enquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;

(ii) Selecting journal entries and other adjustments made at the end of a reporting period; and

(iii) Considering the need to test journal entries and other adjustments throughout the period.

(b) Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing the review, the auditor shall:

(i) Evaluate whether the judgements and decisions made by management indicate a possible bias on the part of the entity's management, even if they are individually reasonable, that may represent a risk of material misstatement due to fraud. If so, the auditor shall re-evaluate the accounting estimates taken as a whole; and

(ii) Perform a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the financial statements of the prior year.

(c) For significant unusual transactions outside the normal course of business for the entity or that otherwise appear to be unusual, evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

(d) Respond to the identified risks of management override of controls to the extent not already addressed by (a) to (c).

Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and therefore a significant risk.

Material misstatement of financial statements due to fraud often involves the manipulation of the financial reporting process by recording inappropriate or unauthorised journal entries. This may occur throughout the year or at period end, or both, or by management making adjustments to *amounts reported in the financial statements that are not reflected in journal entries, such as through reclassifications.*

Automated Tools and Techniques

In manual general ledger systems, non-standard journal entries may be identified through inspection of ledgers, journals, and supporting documentation. When automated procedures are used to maintain the general ledger and prepare financial statements, such entries may exist only in electronic form and may therefore be more easily identified through the use of ATT.

Related Parties

7.4.7. The auditor shall design and perform further audit procedures to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement associated with related party relationships and transactions, including inspecting:

(a) Bank and legal confirmations obtained as part of the auditor's procedures;

(b) Minutes of meetings of shareholders and of those charged with governance; and

(c) Such other records or documents as the auditor considers necessary in the circumstances of the entity.

7.4.8. If the auditor identifies arrangements or information that suggests the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor, the auditor shall determine whether the underlying circumstances confirm the existence of those relationships or transactions.

7.4.9. If the auditor identifies related parties or significant related party transactions that management has not previously identified or disclosed to the auditor, the auditor shall:

(a) Where the applicable financial reporting framework establishes related party requirements:

(i) Request management to identify all transactions with the newly identified related parties for the auditor's further evaluation;

(ii) Enquire as to why the entity's controls over related party relationships and transactions failed to enable the identification or disclosure of the related party relationships or transactions;

(b) Perform appropriate substantive audit procedures for such newly identified related parties or significant related party transactions;

(c) Reconsider the risk that other related parties or significant related party transactions may exist that management has not previously identified or disclosed to the auditor, and perform additional audit procedures as necessary; and

(d) If the non-disclosure by management appears intentional (and therefore indicative of a risk of material misstatement due to fraud), evaluate the implications for the audit.

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

7.4.10. If the auditor identifies related parties or significant related party transactions that management has not previously identified or disclosed to the auditor, the auditor shall promptly communicate the relevant information to the other members of the engagement team.

7.4.11. For identified significant related party transactions outside of the entity's normal course of business the auditor shall:

(a) Inspect the underlying contracts or agreements, if any, and evaluate whether:

   (i) The business rationale (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets;

   (ii) The terms of transactions are consistent with management's explanations; and

   (iii) The transactions have been appropriately accounted for, presented and disclosed in accordance with the applicable financial reporting framework.

(b) Obtain audit evidence that transactions have been appropriately authorised and approved.

7.4.12. If the auditor identifies significant transactions outside the entity's normal course of business, the auditor shall enquire of management about the nature of these transactions and whether related parties could be involved.

7.4.13. If management has made an assertion in the financial statements to the effect that a related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction, the auditor shall obtain sufficient appropriate audit evidence about the assertion.

Accounting Estimates

7.4.14. The auditor shall design and perform further audit procedures related to accounting estimates to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement at the assertion level, including for related disclosures.

7.4.15. The auditor's further audit procedures to respond to assessed risks of material misstatement at the assertion level relating to an accounting estimate shall include one or more of the following approaches:

(a) Obtaining audit evidence from events occurring up to the date of the auditor's report (see paragraph 7.4.16.).

(b) Testing how management made the accounting estimate (see paragraphs 7.4.17.–7.4.18.).

(c) Developing an auditor's point estimate or range (see paragraph 7.4.19.).

Given the nature of many accounting estimates for an LCE, the final outcome of an accounting estimate may be known before the date of the auditor's report. In these circumstances, audit evidence obtained from events occurring up to the date of the auditor's report may provide sufficient appropriate audit evidence to address the assessed risks of material misstatement. For some accounting estimates, however, events occurring up to the date of the auditor's report may not provide sufficient appropriate audit evidence about whether the accounting estimate is reasonable or misstated (e.g., when events or conditions develop only over an extended period). In these circumstances, the auditor's further audit procedures include the approaches in (b) or (c).

Obtaining Audit Evidence from Events Occurring Up to the Date of the Auditor's Report.

7.4.16. When the auditor's further audit procedures include obtaining audit evidence from events occurring up to the date of the auditor's report, the auditor shall evaluate whether the audit evidence is sufficient and appropriate, taking into account any changes in circumstances and other relevant conditions between the event and the measurement date that may affect the relevance of such evidence.

Testing How Management Made the Accounting Estimate

7.4.17. When testing how management made the accounting estimate, the auditor's further audit procedures shall address whether:

(a) The method selected is appropriate;

(b) The significant assumptions and data are consistent and appropriate, and their integrity maintained in applying the method;

(c) Changes from prior periods in the method, significant assumptions and data are appropriate;

(d) Management has the intent to carry out specific courses of actions;

(e) The judgements made in selecting the method, significant assumptions and data, give rise to indicators of possible management bias. When indicators of possible management bias are identified, the auditor shall evaluate the implications for the audit. Where there is intention to mislead, management bias is fraudulent in nature;

(f) The data is relevant and reliable in the circumstances; and

(g) Calculations are mathematically accurate and whether judgements have been applied consistently.

Method, Significant Assumptions and Data

Relevant considerations for the auditor regarding the appropriateness of the method, significant assumptions and data in the context of the applicable financial reporting framework, and, if applicable, the appropriateness of changes from the prior period may include:

- *Management's rationale for the selection of the method, assumption and data;*
- *Whether the method, assumption and data are appropriate in the circumstances given the nature of the accounting estimate, the requirements of the applicable financial reporting framework, and the business, industry and environment in which the entity operates;*
- *Whether a change from prior periods in selecting a method, assumption or data is based on new circumstances or new information. When it is not, the change may not be reasonable nor in compliance with the applicable financial reporting framework. Arbitrary changes in an accounting estimate may give rise to material misstatements of the financial statements or may be an indicator of possible management bias.*
- *When management has determined that different methods result in a range of significantly different estimates, how management has investigated the reasons for these differences.*
- *Whether the significant assumptions are inconsistent with each other and with those used in other accounting estimates.*

7.4.18. The auditor's further audit procedures shall address whether, in the context of the applicable financial reporting framework, management has taken appropriate steps to understand estimation uncertainty and address estimation uncertainty by selecting appropriate point estimates and developing related disclosures. When management has not undertaken appropriate steps, the auditor shall:

(a) Request management to perform additional procedures to understand estimation uncertainty or to address it by reconsidering the selection of management's point estimate or considering providing additional disclosures related to the estimation uncertainty; and

(b) If the auditor determines that management's response to the auditor's request does not sufficiently address estimation uncertainty, to the extent practicable, develop an auditor's point estimate or range.

When the applicable financial reporting framework does not specify how to select a point estimate from among reasonably possible outcomes or does not require specific disclosures, the exercise of judgement by management is an important consideration for the auditor regarding the appropriateness of the point estimate selected and the related disclosures.

Matters that may be relevant for the auditor regarding management's disclosures about estimation uncertainty include the requirements of the applicable financial reporting framework, which may require disclosures:

- *That describe the amount as an accounting estimate and explain the nature and limitations of the process for making it; and*
- *About material accounting policy information related to accounting estimates, which may include significant or critical management judgements as well as significant forward-looking assumptions or other sources of estimation uncertainty.*

Developing an Auditor's Point Estimate or Range

7.4.19. When the auditor develops a point estimate or range to evaluate management's point estimate, the auditor's further audit procedures shall include audit procedures to:

(a) Evaluate whether the methods, assumptions or data used are appropriate in the context of the applicable financial reporting framework; and

(b) Determine that the range includes only amounts that are supported by sufficient appropriate audit evidence.

The auditor's decision as to whether to develop a point estimate rather than a range may depend on the nature of the accounting estimate and the auditor's professional judgement in the circumstances. For example, the nature of the accounting estimate may be such that there is expected to be less variability in the reasonably possible outcomes. In these circumstances, developing a point estimate may be an effective approach, particularly when it can be developed with a higher degree of precision.

The requirement for the auditor to determine that the range includes only amounts that are supported by sufficient appropriate audit evidence does not mean that the auditor is expected to obtain audit evidence to support each possible outcome in the range individually. Rather, the auditor is likely to obtain evidence to determine that the points at both ends of the range are reasonable in the circumstances, thereby supporting that amounts falling between those two points also are reasonable.

Inventory

7.4.20. If inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by:

(a) Unless impracticable, attendance at physical inventory counting, to:

(i) Evaluate management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting;

(ii) Observe the performance of management's count procedures;

(iii) Inspect the inventory; and

(iv) Perform test counts;

(b) Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results; and

(c) If the physical inventory counting is at a date other than the date of the financial statements, performing audit procedures to obtain audit evidence about whether changes in inventory between the count date and the date of the financial statements are properly recorded.

7.4.21. If the auditor has not attended the inventory count due to unforeseen circumstances, the auditor shall make or observe some physical counts on an alternative date, and perform audit procedures on intervening transactions. If attendance at physical inventory counting is impracticable, the auditor shall perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory, or if not possible, determine the effect on the auditor's report.[18]

In some cases, attendance at physical inventory counting may be impracticable. This may be due to factors such as the nature and location of the inventory, for example, where inventory is held in a location that may pose threats to the safety of the auditor. The matter of general inconvenience, difficulty, time, or cost involved, however, are not sufficient to support a decision by the auditor that attendance is impracticable. In some cases where attendance is impracticable, alternative audit procedures, for example, inspection of documentation of the subsequent sale of specific inventory items acquired or purchased prior to the physical inventory counting, may provide sufficient appropriate audit evidence about the existence and condition of inventory. In other cases, however, it may not be possible to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by performing alternative audit procedures. In such cases, the auditor is required to modify the opinion in the auditor's report as a result of the scope limitation.

7.4.22. If inventory under the custody and control of a third party is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory through confirmation as to the quantities and condition, or performing inspection or other audit procedures appropriate in the circumstances.

Litigation and Claims

7.4.23. The auditor shall design and perform further audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement, including:

(a) Enquiry of management and, where applicable, others within the entity, including in-house legal counsel;

(b) Inspecting minutes of meetings of those charged with governance and correspondence between the entity and its external legal counsel; and

(c) Inspecting legal expense accounts.

7.4.24. If the auditor assesses a risk of material misstatement regarding litigation or claims that have been identified, or when audit procedures performed indicate that other material litigation or claims may exist, the auditor shall, in addition to the procedures required by this standard, seek direct communication with the entity's external legal counsel. The auditor shall do so through a letter of enquiry, prepared by management and sent by the auditor, requesting the entity's external legal counsel to communicate directly with the auditor.[19]

[18] For the effect on the auditor's report see Part 9, paragraph 9.5.15.

[19] For the effect on the auditor's report see Part 9, paragraph 9.5.14.

7.4.25. The auditor shall modify the opinion in the auditor's report,[20] if:

(a) Management refuses to give the auditor permission to communicate or meet with the entity's external legal counsel, or the entity's external legal counsel refuses to respond appropriately to the letter of enquiry, or is prohibited from responding; and

(b) The auditor is unable to obtain sufficient appropriate audit evidence by performing alternative audit procedures.

Audit Procedures When Non-Compliance with Law or Regulation is Identified or Suspected

7.4.26. The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements.[21]

7.4.27. If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws or regulations, the auditor shall:

(a) Understand the nature and circumstances, and obtain further information necessary to evaluate the possible effect on the financial statements;

(b) Discuss the non-compliance with management, and where appropriate, those charged with governance, unless prohibited to do so by law or regulation;

(c) If sufficient information about suspected non-compliance cannot be obtained, evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion; and

(d) Evaluate the implications on other aspects of the audit, including the auditor's risk assessment and the reliability of written representations and take appropriate action.[22]

Using the Services of a Service Organisation

7.4.28. If the entity is using the services of a service organisation, the auditor shall:

(a) Determine whether sufficient appropriate audit evidence concerning the relevant financial statement assertions is available at the entity; and, if not,

(b) Perform further audit procedures to obtain sufficient appropriate audit evidence.

To obtain sufficient appropriate audit evidence, the following procedures may be considered by the auditor:

- *Inspect records and documents held by the user entity;*
- *Inspect records and documents held by the service organisation;*
- *Obtain confirmations of balances and transactions from the service organisation in instances where the user entity maintains its own independent records of balances and transactions.*

Using the Work of Management's Expert

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

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[20] For the effect on the auditor's report see Part 9, paragraph 9.5.16.

[21] For the effect on the auditor's report see Part 9, paragraph 9.5.10.

[22] For the effect on the auditor's report see Part 9, paragraphs 9.5.11., 9.5.12. and 9.5.13.

Considerations when evaluating the appropriateness of the management's expert's work may include:

- *The relevance and reasonableness of that expert's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial statements;*
- *If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods;*
- *If that expert's work involves significant use of source data, the relevance, completeness, and accuracy of that source data; and*
- *If that expert's work involves the use of information from an external information source, the relevance and reliability of that information.*

Using the Work of an Auditor's Expert

7.4.30. When the auditor has determined to use the work of an auditor's expert, the auditor shall evaluate the adequacy of the auditor's expert's work, including:

(a) The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence;

(b) If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and

(c) If that expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data.

7.4.31. If the auditor determines that the work of the auditor's expert is not adequate for the auditor's purposes, the auditor shall agree on further work to be done by that expert or perform additional audit procedures appropriate to the circumstances.

7.5. Accumulation of Misstatements

7.5.1. The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial.

Misstatements that are clearly trivial will be of a wholly different (smaller) order of magnitude, or of a wholly different nature than those that would be determined to be material, and will be misstatements that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of nature, size or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the misstatement is considered not to be clearly trivial.

7.5.2. The auditor shall request management to correct all misstatements accumulated during the audit.

7.5.3. If, at the auditor's request, management has examined a class of transactions, account balance or disclosure and corrected misstatements that were detected, the auditor shall perform additional audit procedures to determine whether misstatements remain.

Such a request may be made, for example, based on the auditor's projection of misstatements identified in an audit sample to the entire population from which it was drawn.

7.5.4. If the auditor identifies a misstatement during the audit, the auditor shall evaluate whether the misstatement is indicative of fraud. If there is such an indication, the auditor shall determine the implications on other aspects of the audit, including on the identified and assessed risks of material misstatement and the reliability of management representations.

Since fraud involves incentive or pressure to commit fraud, a perceived opportunity to do so or some rationalisation of the act, an instance of fraud is unlikely to be an isolated occurrence. Accordingly, misstatements, such as numerous misstatements even though the cumulative effect is not material, may be indicative of a risk of material misstatement due to fraud.

7.5.5. If the auditor identifies a misstatement that may be the result of fraud, and suspects that management is involved, the auditor shall:

(a) Re-evaluate the risks of material misstatement due to fraud and the auditor's responses thereto; or

(b) Consider whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering the reliability of evidence previously obtained.

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

7.5.6. The auditor shall determine whether the scope, timing and direction of the audit needs to be revised if:

(a) The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material; and

(b) The aggregate of misstatements accumulated during the audit approaches materiality.

7.6. Specific Communication Requirements

7.6.1. On a timely basis, the auditor shall communicate:

(a) To those charged with governance, in writing, significant deficiencies in the entity's system of internal control identified during the audit.

(b) To management:

(i) In writing, matters that have been communicated to those charged with governance (unless it would be inappropriate to communicate directly with management in the circumstances); and

(ii) Other deficiencies in internal control identified that have not been communicated but are of sufficient importance to merit management's attention.

7.6.2. In respect of communication of significant deficiencies to those charged with governance, the auditor shall include a description and explanation of the potential impact of the deficiencies, and sufficient information to understand the context of the communication.

In describing the context of the auditor's communication, the auditor may explain that:

- *The purpose of the audit was for the auditor to express an opinion on the financial statements;*
- *The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control; and*

- *The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance.*

7.6.3. In communicating with management and, where appropriate, those charged with governance, the auditor shall consider if there are any matters to communicate regarding accounting estimates. In doing so, the auditor shall consider whether the reasons given to the risks of material misstatement relate to estimation uncertainty, or the effects of complexity, subjectivity, change, or management bias in making accounting estimates and related disclosures.

7.7. Specific Documentation Requirements

In addition to the general documentation requirements in Part 2.4. which apply throughout the audit engagement, specific matters to be documented relevant to this Part are described below.

7.7.1. The auditor shall include the following in the audit documentation:

(a) The overall responses to the assessed risks of material misstatement at the financial statement level;

(b) The linkage between the procedures performed and the assessed risks at the assertion level;

(c) The results of the audit procedures, including the conclusions where these are not otherwise clear;

(d) The results of audit procedures designed to address the risk of management override of controls;

(e) All misstatements accumulated during the audit and whether they have been corrected; and

(f) If the auditor plans to use audit evidence about the operating effectiveness of controls obtained in previous audits, the conclusions reached about relying on such controls that were tested in a previous audit.

7.7.2. Where the assessed risk of material misstatement is due to fraud, the auditor's documentation shall include the specific fraud response.

7.7.3. Where the auditor has identified or suspected non-compliance with laws and regulations, the auditor shall document:

(a) The results of discussion with management, and where appropriate, those charged with governance and others; including how the matter has been responded to; and

(b) The audit procedures performed, the significant professional judgements made, and the conclusions reached thereon.

7.7.4. In respect of accounting estimates, the auditor shall document significant judgements relating to the auditor's determination of whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.

8. Concluding

Content of this Part

Part 8 sets out the requirements for:

- Evaluating corrected and uncorrected misstatements identified during the audit.
- Evaluating subsequent events.
- Concluding activities, including the related evaluations.
- Concluding on going concern and related disclosures.
- Obtaining written representations and performing concluding analytical procedures.

Scope of this Part

The evaluations performed and the conclusions reached will form the basis for the auditor's opinion in Part 9.

8.1. Objectives

8.1.1. The objectives of the auditor are to:

(a) Evaluate, the effect of identified misstatements on the audit and the effect of any uncorrected misstatements on the financial statements;

(b) Conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and

(c) Conclude on whether sufficient appropriate audit evidence has been obtained on which to base the auditor's opinion.

8.2. Evaluation of Misstatements Identified During the Audit

8.2.1. If management refuses to correct some or all of the misstatements communicated by the auditor, the auditor shall obtain an understanding of management's reasons for not making the corrections and shall take that understanding into account when evaluating whether the financial statements as a whole are free from material misstatement.

8.2.2. Prior to evaluating the effect of uncorrected misstatements, the auditor shall reassess materiality to confirm whether it remains appropriate in the context of the entity's actual financial results.

8.2.3. The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate, by considering the:

(a) Nature and size of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence; and

(b) Effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

8.3. Analytical Procedures that Assist When Forming an Overall Conclusion

8.3.1. The auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity, and to identify any indications of a previously unidentified risk of material misstatement due to fraud.

8.3.2. The auditor shall investigate fluctuations or relationships that are inconsistent with other relevant information obtained during the course of the audit, by enquiring of management and performing other audit procedures as necessary in the circumstances.

8.4. Subsequent Events

Financial statements may be affected by certain events that occur after the date of the financial statements. Many financial reporting frameworks specifically refer to such events. Such financial reporting frameworks ordinarily identify two types of events:

- *Those that provide evidence of conditions that existed at the date of the financial statements; and*
- *Those that provide evidence of conditions that arose after the date of the financial statements.*

The auditor is not, however, expected to perform additional procedures on matters to which previously applied audit procedures have provided satisfactory conclusions.

Events Occurring Between the Date of the Financial Statements and the Date of the Auditor's Report

8.4.1. The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified.

8.4.2. The auditor shall perform those procedures in accordance with paragraph 8.4.1. for the period from the date of the financial statements to the date of the auditor's report, or as near as practicable thereto, including:

(a) Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified.

(b) Enquiring of management, and where appropriate, those charged with governance, as to whether any subsequent events have occurred that may affect the financial statements.

(c) Reading minutes of meetings of the owners, management and those charged with governance held after the balance sheet date and enquiring about matters discussed at any such meetings for which minutes are not yet available.

(d) Reading the entity's monthly or quarterly financial information, if available.

8.4.3. If the auditor has identified events that require adjustment to the financial statements or disclosures therein to comply with the entity's applicable financial reporting framework when performing the procedures in paragraphs 8.4.1. and 8.4.2, the auditor shall determine whether each such event is appropriately reflected in the financial statements.

Facts Which Become Known to the Auditor After the Date of the Auditor's Report but Before the Date the Financial Statements Are Issued

8.4.4. The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, if the auditor becomes aware of facts or events that, had it been known to the auditor at the date of the auditor's report but before the financial statements are issued, may have caused the auditor to amend the auditor's report, the auditor shall discuss with management, and where appropriate, those charged with governance, and determine whether the financial statements need amendment and, if so, enquire how management intends to address the matter.

8.4.5. If management amends the financial statements, the auditor shall carry out the audit procedures necessary in the circumstances on the amendment, including extending the audit procedures performed to the date of the new auditor's report and providing a new auditor's report on the amended financial statements.

8.4.6. In jurisdictions where management is not required by law, regulation or the financial reporting framework to issue amended financial statements, the auditor need not provide an amended or new auditor's report. However, if management does not amend the financial statements in circumstances where the auditor believes they need to be amended, then the auditor shall:

(a) If the auditor's report has not yet been provided to the entity modify the opinion and then provide the auditor's report;[23] or

(b) If the auditor's report has already been provided to the entity, notify management and those charged with governance not to issue the financial statements to third parties before the necessary amendments have been made. If the financial statements are nevertheless subsequently issued without the necessary amendments, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report.

Facts Which Become Known to the Auditor After the Financial Statements Have Been Issued

8.4.7. [Amended by the NZAuASB]

NZ8.4.7. After the financial statements have been issued, the auditor has no obligation to perform any audit procedures regarding such financial statements. However, if, after the financial statements have been issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:

(a) Discuss the matter with management and, where appropriate, those charged with governance within a reasonable period of time;

(b) Determine whether the financial statements need amendment; and, if so,

(c) Enquire how management intends to address the matter in the financial statements.

8.4.8. If management amends the financial statements, the auditor shall:

(a) Carry out the audit procedures necessary in the circumstances on the amendment, including:

(i) Extending the audit procedures referred to in paragraphs 8.4.1. and 8.4.2. to the date of the new auditor's report, and date the new auditor's report no earlier than the date of approval of the amended financial statements; and

(ii) Providing a new auditor's report[24] on the amended financial statements; and

(b) Review the steps taken by management to ensure that anyone in receipt of the previously issued financial statements together with the auditor's report thereon is informed of the situation.

8.4.9. If management does not take the necessary steps to ensure that anyone in receipt of the previously issued financial statements is informed of the situation and does not amend the

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[23] For the effect on the auditor's report see Part 9, paragraph 9.5.21.

[24] For the effect on the auditor's report see Part 9, paragraph 9.6.7.

financial statements in circumstances where the auditor believes they need to be amended, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report.

8.5. The Auditor's Evaluations and Other Activities to Support the Auditor's Conclusion

Evaluations Required

8.5.1. Based on the audit procedures performed and the audit evidence obtained, the auditor shall evaluate whether the assessments of the risks of material misstatement at the financial statement and assertion levels remain appropriate.

An audit of financial statements is a cumulative and iterative process. As the auditor performs planned audit procedures, the audit evidence obtained may cause the auditor to modify the nature, timing or extent of planned audit procedures. Information may come to the auditor's attention that differs significantly from the information on which the risk assessment was based. In such circumstances, the auditor may need to re-evaluate the planned audit procedures, based on the revised consideration of assessed risks for all or some of the classes of transactions, account balances, or disclosures and related assertions.

The auditor may also consider whether such information changes the auditor's determination about the appropriateness of use of the ISA (NZ) for LCE for the audit, which may necessitate a modification to the terms of engagement.

8.5.2. For accounting estimates, the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether:

(a) The assessments of the risks of material misstatement at the assertion level remain appropriate, including when indicators of possible management bias have been identified; and

(b) Management's decisions about the recognition, measurement, presentation, and disclosure of accounting estimates in the financial statements are reasonable in the context of the applicable financial reporting framework.

8.5.3. The auditor shall evaluate whether two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If it has not, the auditor shall evaluate the effect, if any, on the audit and take action as appropriate.

For example, the original risk assessments may need to be revised, the auditor's opinion may need to be modified on the basis of a scope limitation or other actions may need to be taken as appropriate.

8.5.4. The auditor shall perform audit procedures to evaluate whether the overall presentation of the financial statements is in accordance with the applicable financial reporting framework. In making this evaluation, the auditor shall consider whether the financial statements are presented in a manner that reflects the appropriate:

(a) Classification and description of financial information and the underlying transactions, events and conditions; and

(b) Presentation, structure and content of the financial statements.

Concluding

8.5.5. The auditor shall conclude whether sufficient appropriate audit evidence has been obtained. In forming an opinion, the auditor shall consider all relevant audit evidence, regardless of whether it appears to be corroborative or contradictory.

8.5.6. If the auditor has not obtained sufficient appropriate audit evidence as to a relevant assertion, the auditor shall attempt to obtain additional audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements. [25]

8.5.7. The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding, and shall conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.[26]

8.5.8. The auditor shall conclude, based on the audit evidence obtained, whether in the auditor's professional judgement, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.[27]

8.5.9. If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:

(a) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and

(b) 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 realis~~z~~e its assets and discharge its liabilities in the normal course of business.

In such cases, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Relating to Going Concern".

8.5.10. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions.

8.5.11. If the auditor confirms that, or is unable to conclude whether, the financial statements are materially misstated as a result of fraud, the auditor shall evaluate the implications on the audit including on the assessed risks of material misstatement and the auditor's report.

8.6. Written Representations

[NZ] Written representations are necessary information that the auditor requests in connection with the audit of the entity's financial statements. Accordingly, similar to responses to enquiries, written representations are audit evidence. However, although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that those charged with governance, or management, have provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfilment of those charged with governance's, or management's, responsibilities, or about specific assertions.

[25] For the effect on the auditor's report see Part 9, paragraph 9.5.27.

[26] For the effect on the auditor's report see Part 9, paragraph 9.5.17.

[27] For the effect on the auditor's report see Part 9, paragraph 9.5.18.

[NZ] Written representations are requested from those responsible for the preparation of the financial statements. Those individuals may vary depending on the governance structure of the entity, and relevant law or regulation; however, those charged with governance (rather than management) are often the responsible party. In some circumstances, however, other parties, such as management, are also responsible for the preparation of the financial statements.

8.6.1. [Amended by the NZAuASB]

NZ8.6.1. The auditor shall obtain written representations from those charged with governance who have appropriate knowledge of the matters concerned and responsibility for the financial statements, about the following matters:

(a) That they have fulfilled their responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation. The responsibilities shall be described in the same way in the representation as described in the terms of engagement;

(b) That they have provided the auditor with all relevant information and access as agreed in the terms of the audit engagement;

(c) That all transactions are recorded and are reflected in the financial statements;

(d) That they acknowledge their responsibility for the design, implementation and maintenance of controls to prevent and detect fraud;

(e) That they have disclosed to the auditor the result of its assessment of the risk that the financial statements may be materially misstated because of fraud;

(f) That their knowledge of fraud, or suspected fraud, or allegations of fraud or suspected fraud has been disclosed to the auditor;

(g) That they have disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which they are aware;

(h) That they have appropriately accounted for and disclosed related party relationships and transactions in accordance with the requirements of the financial reporting framework;

(i) That all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed to the auditor;

(j) That all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework;

(k) With respect to accounting estimates, whether the methods, significant assumptions and data used in making the accounting estimates and disclosures are appropriate to achieve recognition, measurement or disclosure is in accordance with the applicable financial reporting framework;

(l) That all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed;

(m) With respect to going concern, if a material uncertainty exists, information about their plans for future actions and the feasibility of these plans;

(n) Regarding any restatement made to correct a material misstatement in prior period financial statements that affect the comparative information; and

(o) Other representations the auditor determines necessary to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements, including where necessary to support oral representations.

8.6.2. The auditor shall consider the need to obtain representations about specific accounting estimates.

8.6.3. The written representation shall be in the form of a representation letter addressed to the auditor.

Appendix 7 sets out an illustrative representation letter. If law or regulation requires management to make written public statements about its responsibilities, and the auditor determines that such statements provide some or all of the representations required by this standard, the relevant matters covered by such statements need not be included in the representation letter.

[NZ] If the auditor intends to rely on some, or all, of the written representations made by those charged with governance in a written public statement, the auditor ordinarily communicates their intention to place such reliance.

8.6.4. [Amended by the NZAuASB]

NZ8.6.4. The auditor shall request a written representation from those charged with governance, whether they believe the effects of uncorrected misstatements are immaterial, individually or in aggregate, to the financial statements as a whole. A summary of such items shall be included in or attached to the written representation.

8.6.5. [Amended by the NZAuASB]

NZ8.6.5. If the auditor has concerns about the competence, integrity, ethical values, or diligence of management or those charged with governance, or about its commitment to or enforcement of these, or representations received are inconsistent with other audit evidence, the auditor shall determine the effect on audit evidence more generally and take appropriate actions, including considering the possible effect on the opinion in the auditor's report[28] having regard to the requirement in paragraph 8.6.7.

In the case of identified inconsistencies between one or more written representations and audit evidence obtained from another source, the auditor may consider whether the risk assessment remains appropriate and, if not, revise the risk assessment and determine the nature, timing and extent of further audit procedures to respond to the assessed risks.

[NZ] Concerns about the competence, integrity, ethical values or diligence of management or those charged with governance, or about its commitment to or enforcement of these, may cause the auditor to conclude that the risk of management misrepresentation in the financial statements is such that an audit cannot be conducted. In such a case, the auditor may consider withdrawing from the engagement, where withdrawal is possible under applicable law or regulation, unless those charged with governance put in place appropriate corrective measures. Such measures, however, may not be sufficient to enable the auditor to issue an unmodified audit opinion.

8.6.6. [Amended by the NZAuASB]

NZ8.6.6. If management or those charged with governance does not provide one or more of the requested written representations, the auditor shall:

(a) Discuss the matter with management;

(b) Re-evaluate the integrity of management and evaluate the effect this may have on the reliability of oral and written representations and audit evidence in general; and

[28] For the effect on the auditor's report see Part 9, paragraph 9.5.22.

(c) Take appropriate actions, including determining the possible effect on the opinion in the auditor's report[29] having regard to the requirement in paragraph 8.6.7.

8.6.7. [Amended by the NZAuASB]

NZ8.6.7. If the auditor concludes that there is sufficient doubt about the integrity of those charged with governance such that the written representations required by paragraphs 8.6.1.(a)–(c) are not reliable[30] or management does not provide the written representations required by paragraphs 8.6.1.(a)–(c),[31] the auditor shall disclaim an opinion on the financial statements.

8.6.8. The date of the written representations shall be as near as practicable to, but not after, the date of the auditor's report on the financial statements. The written representations shall be for all financial statements and period(s) referred to in the auditor's report.

8.7. Taking Overall Responsibility for Managing and Achieving Quality

8.7.1. Prior to dating the auditor's report, the engagement partner shall determine that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement. In doing so, the engagement partner shall determine that:

(a) The engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgements made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement; and

(b) The nature and circumstances of the audit engagement, any changes thereto, and the firm's related policies or procedures have been taken into account.

8.7.2. On or before the date of the auditor's report, the engagement partner shall determine that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.

8.7.3. Prior to dating the auditor's report, the engagement partner shall review the financial statements and the auditor's report to determine that the report to be issued is appropriate in the circumstances.

8.8. Specific Communication Requirements

8.8.1. The auditor shall communicate, on a timely basis, all misstatements accumulated during the audit with the appropriate level of management, unless prohibited by law or regulation.

8.8.2. The auditor shall communicate with those charged with governance:

(a) Uncorrected misstatements and the effect that they, individually or in aggregate, may have on the auditor's opinion, unless prohibited by law or regulation. The auditor's communication shall identify the material uncorrected misstatements individually.

(b) The effect of uncorrected misstatements from prior periods on the current year's financial statements.

(c) The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates, and financial statement disclosures.

(d) Significant difficulties, if any, encountered during the audit.

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[29] For the effect on the auditor's report see Part 9, paragraph 9.5.23.

[30] For the effect on the auditor's report see Part 9, paragraph 9.5.24.

[31] For the effect on the auditor's report see Part 9, paragraph 9.5.25.

(e) Significant matters arising during the audit, including in connection to the entity's related parties, that were discussed, or subject to correspondence, with management.

(f) Significant findings from the audit. If, in the auditor's professional judgement, oral communications would not be adequate this communication shall be in writing.

(g) Other matters not already reported related to fraud that may be relevant to the responsibilities of those charged with governance, unless prohibited by law or regulation.

(h) Circumstances, if any, that affect the form and content of the auditor's report.

(i) Written representations the auditor is requesting.

(j) Other significant matters, if any, arising from the audit that, in the auditor's professional judgement, are relevant to the oversight of the financial reporting process.

(k) The expectation thereof and the wording if the auditor expects to include an Emphasis of Matter or Other Matter Paragraph in the auditor's report.

8.8.3. Unless all those charged with governance are involved in managing the entity, the auditor shall communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:

(a) Whether the events or conditions constitute a material uncertainty;

(b) Whether management's use of the going concern basis of accounting is appropriate in the preparation of the financial statements;

(c) The adequacy of related disclosures in the financial statements; and

(d) Where applicable, the implications for the auditor's report.

8.9. Specific Documentation Requirements

In addition to the general documentation requirements in Part 2.4. which apply throughout the audit engagement, specific matters to be documented relevant to this Part are described below.

8.9.1. The auditor shall include the following in the audit documentation:

(a) All misstatements accumulated during the audit and whether they have been corrected, and the auditor's conclusion as to whether the uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion; and

(b) The nature and scope of, and conclusions from, consultations undertaken during the audit, including how such conclusions were implemented.

8.9.2. The auditor's documentation shall demonstrate that information in the financial statements agrees or reconciles with the underlying accounting records, including agreeing or reconciling disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers.

8.9.3. The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.

PES 3 (or national requirements that are at least as demanding requires firms' systems of quality management to establish a quality objective that addresses the assembly of engagement documentation on a timely basis after the date of the engagement reports.[32] An appropriate time

[32] PES 3, paragraph 31(f)

limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.[33]

8.9.4. After assembly of the final audit file is complete, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period.

PES 3(or national requirements that are at least as demanding) requires firms' systems of quality management to establish a quality objective to addresses the appropriate maintenance and retention of engagement documentation to meet the needs of the firm and to comply with law, regulation, relevant ethical requirements, or professional standards.[34] *The retention period for audit engagements ordinarily is no shorter than five years from the date of the auditor's report, or, if later, the date of the auditor's report on the group financial statements, when applicable.*[35]

8.9.5. If applicable, the auditor shall document the failure to meet an objective of any Part of the ISA (NZ) for LCE, and the resulting action (such as the effect on the auditor's opinion or withdrawal from the engagement if the overall objective of the auditor cannot be met).

8.9.6. If the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the assembly of the final audit file has been completed, the auditor shall, regardless of the nature of the modifications or additions, document:

(a) The specific reasons for making them; and

(b) When and by whom they were made and reviewed.

[33] PES 3, paragraph A83

[34] PES 3, paragraph 31(f)

[35] PES 3, paragraph A85

9. Forming an Opinion and Reporting

Content of this Part

Part 9 sets out the requirements for:

- Forming an opinion;
- The types of audit opinions; and
- The content of the auditor's report.
- Other Information and Comparative Information.

Scope of this Part

This Part explains the content of the auditor's report and sets out the auditor's determination of modifications to the opinion, as well as when other amendments to the auditor's report are needed. It also sets out the auditor's required procedures in relation to corresponding figures and comparative financial statements, and other information (if applicable).

Examples of modified opinions, a material uncertainty related to going concern, emphasis of matter and other matter paragraphs, and related guidance on auditor reports, can be found in the *Auditor Reporting Supplemental Guide*.

9.1. Objectives

9.1.1. The objectives of the auditor are to:

(a) Form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained and to express clearly that opinion through a written report; and

(b) Consider whether there is a material inconsistency between the other information, if any, and the:

(i) Financial statements; and

(ii) Auditor's knowledge obtained in the audit.

9.2. Forming an Opinion on the Financial Statements

9.2.1. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

9.2.2. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account:

(a) Whether sufficient appropriate audit evidence has been obtained;

(b) Whether uncorrected misstatements are material, individually or in aggregate; and

(c) The evaluations required by paragraphs 9.2.3. to 9.2.6.

9.2.3. The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgements.

9.2.4. In performing the evaluation in paragraph 9.2.3., the auditor shall evaluate, in view of the requirements of the applicable financial reporting framework, whether:

(a) The financial statements appropriately disclose the entity's significant accounting policies, and whether they have been presented in an understandable way;

(b) The entity's accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;

(c) The accounting estimates and related disclosures made by management are reasonable;

(d) The identified related party relationships and transactions have been appropriately accounted for, presented and disclosed in accordance with the applicable financial reporting framework;

(e) The information presented in the financial statements is relevant, reliable, comparable and understandable including whether:

(i) The information that should have been included has been included;

(ii) Such information is appropriately classified, aggregated or disaggregated, and characteri~~z~~sed; and

(iii) The overall presentation of the financial statements has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed;

(f) The financial statements provide adequate disclosures to enable intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and

(g) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

9.2.5. When the financial statements are prepared in accordance with a fair presentation framework, the auditor shall also evaluate whether the financial statements achieve fair presentation. This evaluation shall include consideration of:

(a) The overall presentation, structure and content of the financial statements; and

(b) Whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The auditor's evaluation about whether the financial statements achieve fair presentation, both in respect of presentation and the disclosures necessary to achieve it, is a matter of professional judgement.

9.2.6. The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework.

9.3. Form of Opinion

9.3.1. The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

If the financial reporting framework is a fair presentation framework, as is generally the case for general purpose financial statements, the opinion required is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view. If the financial reporting framework is a compliance framework, the opinion required is on whether the financial statements are prepared, in all material respects, in accordance with the framework.

9.3.2. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor shall discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, determine whether to modify the opinion. [36]

9.3.3. If the financial statements are prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve fair presentation. However, if in extremely rare circumstances the auditor concludes, based on the audit evidence obtained, that such financial statements are misleading, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor's report. [37]

9.4. Auditor's Report

9.4.1. [Amended by the NZAuASB]

NZ9.4.1. The auditor shall report in accordance with the specified format and content below, or paragraph 11.14.1., ~~-~~unless:

(a) Amendment to the auditor's report is required for compliance with a specific layout or wording of the auditor's report required by law or regulation ~~of a jurisdiction~~ or ~~i~~by~~n~~ the Auditor-General's Auditing Standards. When the layout or wording of the auditor's report is prescribed by law or regulation or by~~in~~ the Auditor-General's Auditing Standards, the auditor's report shall refer to this ISA (NZ) for LCE only if the elements of the specified format and content illustrated below are included; or

(b) The auditor's report includes a modified opinion, emphasis of matter paragraph, other matter paragraph, material uncertainty related to going concern, other reporting responsibilities, or a separate section dealing with Other Information, in which case the auditor shall modify the auditor's opinion (according to Part 9.5.) or amend the auditor's report (according to Part 9.8.).

NZ9.4.1.A. An auditor, when applying this standard, is required to conduct an audit in accordance with the ISA (NZ) for LCE. Compliance with the ISA (NZ) for LCE will also mean the auditor has complied with the ISA for LCE in the conduct of the audit. In this case, the auditor's report may refer to the ISA for LCE in addition to the ISA (NZ) for LCE only if the auditor's report includes the elements of the specified format and content illustrated below.

[36] For the effect on the auditor's report see Part 9, paragraph 9.5.28.

[37] For the effect on the auditor's report see Part 9, paragraph 9.5.29.

INDEPENDENT AUDITOR'S REPORT

To the [Shareholders of ABC Company or Other Appropriate Addressee][38]

Opinion

We have audited[39] the financial statements of [ABC Company (the Entity), which comprise the statement of financial position as at December 31, 20XX, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (replace these report names with the appropriate titles)].[40]

In our opinion, the accompanying financial statements ["present fairly, in all material respects" or "give a true and fair view of"][41] the financial position of the [Entity] as at [December 31, 20XX], and [of] its financial performance and its cash flows for the year then ended in accordance with [applicable financial reporting framework] issued by the New Zealand Accounting Standards Board.[42]

Basis for Opinion

We conducted our audit in accordance with the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities (the ISA (NZ) for LCE). Our responsibilities under the ISA (NZ) for LCE are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.[43] We are independent of the [Entity] in accordance with *Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, 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.[44]

Other than in our capacity as auditor we have no relationship with, or interests in, the [Entity].[45]

Responsibilities of [Those Charged with Governance] for the Financial Statements[46]

[Those Charged with Governance] are responsible on behalf of the [Entity] for the preparation [and fair presentation] of the financial statements in accordance with [applicable financial reporting framework],[47] and for such internal control as [Those Charged with Governance] determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, [Those Charged with Governance] are responsible for assessing the [Entity's] ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless [Those Charged with Governance] either intends to liquidate the [Entity] or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements[48] [49]

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISA (NZ) for LCE will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the ISA (NZ) for LCE, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the [Entity's] internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting

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38 Matters reflected in the specified format and content of the auditor's report in square brackets (e.g. [ ]) are to be tailored accordingly.

39 When disclaiming an opinion, the statement which indicates that the financial statements have been audited is amended to state that the auditor was engaged to audit the financial statements.

40 Identify the entity whose financial statements have been audited; identify each financial statement and its date and period, and refer to the notes and significant accounting policies or use another appropriate description in accordance with the applicable financial reporting framework.

41 See also 9.4.2. below. When the financial statements are prepared in accordance with a compliance framework, the opinion and description of the auditor's responsibilities refer instead to whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

42 [NZ] Identify the jurisdiction of origin of the financial reporting framework if it is not International Financial Reporting Standards or International Public Sector Accounting Standards as issued by the International Public Sector Accounting Standards Board. For an entity in New Zealand, that is required to apply the New Zealand Accounting Standards Framework, the reference to the applicable financial reporting framework in the auditor's opinion should be to the applicable financial reporting requirements issued by the New Zealand Accounting Standards Board of the External Reporting Board that apply to the tier under which the entity is reporting.

43 When the auditor disclaims an opinion on the financial statements, this statement is not included in the auditor's report.

44 When the auditor expresses a qualified or adverse opinion, the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion is amended to include the word "qualified" or "adverse", as appropriate. When the auditor disclaims an opinion on the financial statements, this statement is not included in the auditor's report.

45 [NZ] If the auditor has any relationship (other than that of auditor) with, or any interests in, the entity, then this statement is amended.

46 [NZ] Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction. In New Zealand, the appropriate reference is usually to those charged with governance. In some jurisdictions, the appropriate reference may be to management.

47 [NZ] Where Those Charged with Governance's responsibility is to prepare financial statements that give a true and fair view, this may read: "Those Charged with Governance are responsible for the preparation of financial statements that give a true and fair view in accordance with [applicable financial reporting framework], and for such ..."

48 [NZ] The description of the auditor's responsibilities may also be included within an appendix, or refer to a description to the relevant page of the auditor's responsibilities on the External Reporting Board's website at https://www.xrb.govt.nz/standards/assurance-standards/auditors-responsibilities/. The auditor shall determine that such a description is not inconsistent with this ISA (NZ) for LCE. In such cases, a reference to the location of appendix or description shall be included within the auditor's report, accompanied by "This description forms part of our auditor's report". When the auditor disclaims an opinion on the financial statements, the description of the auditor's responsibilities only includes the matters required by paragraph 9.5.33.

49 When Part 10 applies, further describe the auditor's responsibilities in a group audit engagement by stating that;

(i) The auditor's responsibilities are to plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements;

(ii) The auditor is responsible for the direction, supervision and review of the audit work performed for purposes of the group audit; and

(iii) The auditor remains solely responsible for the auditor's opinion.

estimates and related disclosures made by [management and Those Charged with Governance].

- Conclude on the appropriateness of [Those Charged with Governance's] use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [Entity's] ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the [Entity] to cease to continue as a going concern.
- [Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.][50]

We communicate with [management, and where appropriate, those charged with governance] regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[*Signature in the name of the audit firm*[51]]

[*Auditor Address: name the location in the jurisdiction where the auditor practices]*

[*Date: No earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that (i) All the statements and disclosures that comprise the financial statements have been prepared; and (ii) Those with the recognised authority have asserted that they have taken responsibility for those financial statements.*]

9.4.2. When the financial statements are prepared in accordance with a fair presentation framework, the auditor shall refer to "the preparation and fair presentation of these financial statements" or "the preparation of financial statements that give a true and fair view," as appropriate in the circumstances, in the description of responsibilities for the financial statements in the auditor's report.

9.4.3. The auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor shall indicate in the auditor's report that the reference does not reduce the auditor's responsibility for the auditor's opinion.

9.5. Modifications to the Opinion

Tables A to C below set out the requirements for which a modified opinion is to be used in different situations, and the form and content of a modified opinion.

9.5.1. The auditor shall modify the opinion in the auditor's report according to Tables A–C below when:

(a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or

(b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

[50] Relevant when the financial statements are prepared in accordance with a fair presentation framework.

[51] [NZ] Law or regulation may require that the auditors' report include the name of the engagement partner responsible for audits. The auditor may be required by law or regulation, or may decide, to include additional information beyond the engagement partner's name in the auditor's report to further identify the engagement partner, for example, the engagement partner's professional license number that is relevant to where the auditor practices.

9.5.2. When the auditor modifies the audit opinion, the auditor shall:

(a) Amend the heading "Basis for Opinion" to "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion" as set out in Tables A–C; and

(b) Within the basis for opinion section, include a description of the matter giving rise to the modification.

Table A below specifies how the auditor's professional judgement about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed.

TABLE A **Nature of Matter Giving Rise to the Modification**	**Auditor's Professional Judgement about the Pervasiveness of the Effects or Possible Effects on the Financial Statements**	
	Material but Not Pervasive	*Material and Pervasive*
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Table B below specifies the modification to be made to the opinion for each type of opinion in Table A.

TABLE B **Form of opinion**	**Fair Presentation Framework**	**Compliance Framework**
9.5.3. Qualified opinion Auditor's Report – Heading for opinion: "Qualified Opinion" Auditor's Report – Heading for Basis for Opinion: "Basis for Qualified Opinion"	"In our opinion, except for the [effects or possible effects][52] of the matter(s) described in the Basis for Qualified Opinion section, the accompanying financial statements [present fairly, in all material respects / [give a true and fair view of] […] in accordance with [the applicable financial reporting framework]"	"…except for the [effects or possible effects][52] of the matter(s) described in the Basis for Qualified Opinion section, the accompanying financial statements have been prepared, in all material respects, in accordance with [the applicable financial reporting framework]"
9.5.4. Adverse opinion Auditor's Report – Heading for opinion: "Adverse Opinion"	"…the accompanying financial statements do not [present fairly /give a true and fair view of] […] in accordance with [the applicable financial reporting framework]"	"…the accompanying financial statements have not been prepared, in all material respects, in accordance with [the

[52] Matters reflected in square brackets (e.g., [ ]) are to be tailored accordingly

Auditor's Report – Heading for Basis for Opinion: “Basis for Adverse Opinion”		applicable financial reporting framework]”
9.5.5. Disclaimer of opinion Auditor's Report – Heading for opinion: “Disclaimer of Opinion” Auditor's Report – Heading for Basis for Opinion: “Basis for Disclaimer of Opinion”	“We were engaged to audit the financial statements of…” “We do not express an opinion on the accompanying financial statements. Because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.”	

Table C below sets out specific circumstances when the auditor's opinion is to be modified, and the types of opinions expressed in those circumstances based on the nature of the matter giving rise to the modification (see Table A). Table C is not an exhaustive list of all circumstances when the auditor's opinion is to be modified.

TABLE C **Specific Circumstances When the Auditor's Opinion is to be Modified**	**Para Ref**	**Qualified**	**Adverse**	**Disclaimer**
Opening Balances				
9.5.6. The auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances.	4.5.4.	✓		✓
9.5.7. The auditor concludes, based on the audit evidence obtained, that the opening balances contain a misstatement that materially affects the current period's financial statements, and the effect of the misstatement is not appropriately accounted for or not adequately presented or disclosed.	4.5.5.	✓	✓	
9.5.8. The auditor concludes, based on the audit evidence obtained, that the current period's accounting policies are not consistently applied in relation to opening balances in accordance with the applicable financial reporting framework or a change in	4.5.6.	✓	✓	

TABLE C Specific Circumstances When the Auditor's Opinion is to be Modified	Para Ref	Qualified	Adverse	Disclaimer
accounting policies is not appropriately accounted for or adequately presented or disclosed, in accordance with the financial reporting framework.				
9.5.9. The predecessor auditor's opinion regarding the prior period's financial statements included a modification that remains relevant and material to the current period's financial statements.	4.5.3.	✓	✓	✓
Non-Compliance with Laws and Regulations				
9.5.10. Sufficient information about suspected non-compliance cannot be obtained.	7.4.26.	✓		✓
9.5.11. The auditor concludes that the identified or suspected non-compliance has a material effect on the financial statements and has not been adequately reflected in the financial statements.	7.4.27.	✓	✓	
9.5.12. The auditor is precluded by management or those charged with governance from obtaining sufficient appropriate audit evidence to evaluate whether non-compliance that may be material to the financial statements has, or is likely to have, occurred.	7.4.27.	✓		✓
9.5.13. The auditor is unable to determine whether non-compliance has occurred because of limitations imposed by the circumstances rather than by management or those charged with governance.	7.4.27.	✓		✓

TABLE C Specific Circumstances When the Auditor's Opinion is to be Modified	Para Ref	Qualified	Adverse	Disclaimer
External Confirmations				
9.5.14. The auditor concludes that management's refusal to allow the auditor to send a confirmation request is unreasonable, or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures.	7.3.24.	✓		✓
Inventory				
9.5.15. The auditor cannot perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory.	7.4.21.	✓		✓
Litigation and Claims				
9.5.16. Management refuses to give the auditor permission to communicate or meet with the entity's external legal counsel, or the entity's external legal counsel refuses to respond appropriately to the letter of enquiry, or is prohibited from responding; and the auditor is unable to obtain sufficient appropriate audit evidence by performing alternative audit procedures.	7.4.25.	✓		✓
Going Concern				
9.5.17. The financial statements have been prepared using the going concern basis of accounting but, in the auditor's professional judgement, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate.	7.4.1. 8.5.7.		✓	

TABLE C **Specific Circumstances When the Auditor's Opinion is to be Modified**	**Para Ref**	**Qualified**	**Adverse**	**Disclaimer**
9.5.18. Adequate disclosures are not made about a material uncertainty in the financial statements. 9.5.19. In this circumstance, the basis for qualified (or adverse) opinion section shall state that "a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter."	7.4.4. 8.5.8.	✓	✓	
9.5.20. [Amended by the NZAuASB] NZ9.5.20. When evaluating management's assessment of the entity's ability to continue as a going concern, the period is less than twelve months from the date of the auditor's current report, and management does not make or extend its assessment, leading to the auditor being unable to obtain sufficient appropriate audit evidence.	7.4.2.	✓		✓
Subsequent Events				
9.5.21. Facts become known to the auditor after the date of the auditor's report but before the date the financial statements are issued, and management does not amend the financial statements in circumstances where the auditor believes they need to be amended.	8.4.6.	✓	✓	✓
Written Representations				
9.5.22. The auditor concludes that the written representations required by this standard are not reliable.	8.6.5.	✓		✓

TABLE C **Specific Circumstances When the Auditor's Opinion is to be Modified**	**Para Ref**	**Qualified**	**Adverse**	**Disclaimer**
9.5.23. Management does not provide one or more of the requested written representations.	8.6.6.	✓		✓
9.5.24. The auditor concludes that there is sufficient doubt about the integrity of management such that the written representations required by 8.6.1.(a)–(c) are not reliable.	8.6.7.			✓
9.5.25. When management does not provide the written representations required by paragraphs 8.6.1.(a)–(c).	8.6.7.			✓
Corresponding Figures				
9.5.26. Corresponding figures are presented, the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved. The Basis for Modification paragraph shall either: (a) refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material,; or (b) in other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.	9.7.6.	✓	✓	✓
Other Items				

TABLE C Specific Circumstances When the Auditor's Opinion is to be Modified	Para Ref	Qualified	Adverse	Disclaimer
9.5.27. The auditor is unable to obtain sufficient appropriate audit evidence.	8.5.6.	✓		✓
9.5.28. The financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation.	9.3.2.		✓	
9.5.29. The financial statements are prepared in accordance with a compliance framework and, in extremely rare circumstances, the auditor concludes, based on the audit evidence obtained, that such financial statements are misleading.	9.3.3.	✓	✓	✓

Other Matters Relating to Modifications

9.5.30. If the auditor makes reference to the work of an auditor's expert in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor shall indicate in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion.

9.5.31. If there is a material misstatement of the financial statements that relates to:

(a) Specific amounts in the financial statements (including quantitative disclosures), the auditor shall include in the Basis for Opinion section a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor shall so state in this section.

(b) Qualitative disclosures, the auditor shall include in the Basis for Opinion section an explanation of how the disclosures are misstated.

(c) The non-disclosure in the financial statements of information required to be disclosed, the auditor shall:

(i) Discuss the non-disclosure with those charged with governance;

(ii) Describe in the Basis for Opinion section the nature of the omitted information; and

(iii) Unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information.

9.5.32. If the modification results from an inability to obtain sufficient appropriate audit evidence, the auditor shall include in the Basis for Opinion section the reasons for that inability.

9.5.33. When the auditor disclaims an opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the Auditor's Responsibilities for the Audit of the Financial Statements section of the report under paragraph 9.4.1. to include only the following:

(a) A statement that the auditor's responsibility is to conduct an audit of the entity's financial statements in accordance with the ISA (NZ) for LCE and to issue an auditor's report;

(b) A statement that because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and

(c) A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.

(~~NZ~~ d) [NZ] In New Zealand, the statement required by paragraph 9.5.33.(c) shall refer to Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board.

9.5.34. If the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, the auditor shall describe in the Basis for Opinion section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof.

9.6. Other Paragraphs in the Auditor's Report

Emphasis of Matter paragraphs and Other Matter paragraphs in the auditor's report are used when the auditor considers it necessary to:

- *Draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements (Emphasis of Matter); or*
- *Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report (Other Matter).*

Emphasis of Matter Paragraphs

9.6.1. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's professional judgement, is of such importance that it is fundamental to the users' understanding of the financial statements, and the auditor would not be required to modify the opinion as a result of that matter, the auditor shall include an Emphasis of Matter paragraph in the auditor's report indicating that the auditor's report is not modified in respect of the matter emphasised.

Examples of where Emphasis of Matter paragraphs may be needed include:

- *When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.*
- *When facts become known to the auditor after the date of the auditor's report and the auditor provides a new or amended auditor's report (i.e., subsequent events).*

The inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion. An Emphasis of Matter paragraph is not a substitute for:

- *A modified opinion when required by the circumstances of a specific audit engagement;*
- *Disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation; or*
- *Reporting when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.*

Other Matter Paragraphs

The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the financial statements. An Other Matter paragraph does not include information that the auditor is prohibited from providing by law, regulation or other professional standards, for example, ethical standards for the confidentiality of information. An Other Matter paragraph also does not include information that is required to be provided by management.

9.6.2. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's professional judgement, is relevant to the users' understanding of the audit, the auditor's responsibilities or the auditor's report the auditor shall include an Other Matter paragraph in the auditor's report provided this is not prohibited by law or regulation.

Content of Other Paragraphs in the Audit Report

9.6.3. When the auditor includes an Emphasis of Matter, Other Matter paragraph or a material uncertainty related to going concern in the auditor's report, the auditor shall include the paragraph or section according to Table D below:

TABLE D **Paragraph or Section**	**Location**	**Heading shall include**	**Content shall include**
9.6.4. Emphasis of Matter paragraph	A separate section of the auditor's report	Appropriate heading that includes "Emphasis of Matter"	A clear reference to the matter being emphasised and to where relevant disclosures that fully describe the matter can be found in the financial statements. A reference only to information presented or disclosed in the financial statements. An indication that the auditor's opinion is not modified in respect of the matter emphasised.
9.6.5. Other Matter paragraph	A separate section of the auditor's report	Appropriate heading that includes "Other Matter"	As appropriate in the circumstances.
9.6.6. Material Uncertainty Related to Going	A separate section of the auditor's report	"Material Uncertainty Related to Going Concern"	Draw attention to the note in the financial statements that discloses the matters related to the material uncertainty. State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and

TABLE D Paragraph or Section	Location	Heading shall include	Content shall include
Concern paragraph			that the auditor's opinion is not modified in respect of the matter.

9.6.7. When facts become known to the auditor after the financial statements have been issued and if management amends the financial statements, the auditor shall include in the new or amended auditor's report an Emphasis of Matter paragraph or Other Matter paragraph drawing users' attention to the reason for the amendment and referring to the earlier report provided by the auditor.

9.7. Comparative Information – Corresponding Figures and Comparative Financial Statements

[NZ] In New Zealand, the auditor's opinion on financial statements prepared under New Zealand generally accepted accounting practice refers to financial statements for the current period, which include corresponding figures, and not to comparative financial statements. Consequently, paragraphs 9.7.1., 9.7.2., 9.7.4., 9.7.7. and 9.7.8. have no application.

9.7.1. The auditor shall determine whether the financial statements include the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified. In doing so, the auditor shall evaluate whether:

(a) The amounts and disclosures in the prior period agree with comparative information or have been restated; and

(b) The accounting policies reflected in the comparative information are consistent with those applied in the current period or, where changes occurred, have been properly accounted for and adequately presented or disclosed.

9.7.2. If the auditor becomes aware of a possible material misstatement in the comparative information while performing the current period audit, the auditor shall perform such additional audit procedures as are necessary in the circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists. If the prior period financial statements are amended, the auditor shall determine that the comparative information agrees with the amended financial statements.

9.7.3. If the financial statements of the prior period were audited by a predecessor auditor and the auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and decides to do so, the auditor shall state in an Other Matter paragraph in the auditor's report:

(a) That the financial statements of the prior period were audited by a predecessor auditor;

(b) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and

(c) The date of that report.

9.7.4. If the financial statements of the prior period were audited by a predecessor auditor and are presented as comparative financial statements, in addition to expressing an opinion on the current period's financial statements, the auditor shall state in an Other Matter paragraph:

(a) That the financial statements of the prior period were audited by a predecessor auditor;

(b) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and

(c) The date of that report, unless the predecessor auditor's report on the prior period's financial statements is reissued with the financial statements.

9.7.5. If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph in the auditor's report that the corresponding figures or comparative financial statements are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.

Corresponding Figures

9.7.6. When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in accordance with paragraph 9.7.5. or in the following circumstances:

(a) If the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements.[53]

(b) If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which an unmodified opinion has been previously issued, and the corresponding figures have not been properly restated or appropriate disclosures have not been made, the auditor shall express a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.

Comparative Financial Statements

9.7.7. When comparative financial statements are presented, the auditor's opinion shall refer to each period for which financial statements are presented and on which an audit opinion is expressed.

9.7.8. When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph.

[53] For the effect on the auditor's report see Part 9, paragraph 9.5.26.

9.8. Other Information

"Other information" is financial or non-financial information (other than the financial statements and the auditor's report thereon) included in an entity's annual report.

9.8.1. The auditor shall determine, through discussion with management, which document(s) comprises the annual report, and the entity's planned manner and timing of the issuance of such document(s).

9.8.2. The auditor shall read the other information, and:

(a) Consider whether there is a material inconsistency between the other information and the financial statements; and

(b) Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit.

9.8.3. As the basis for the considerations in paragraph 9.8.2.(a), the auditor shall, to evaluate their consistency, compare selected amounts or other items in the other information (that are intended to be the same as, to summarise, or to provide greater detail about, the amounts or other items in the financial statements) with such amounts or other items in the financial statements.

In evaluating the consistency of selected amounts or other items, the auditor is not required to compare all amounts or other items in the other information that are intended to be the same as, or summarise, or to provide greater details about, the amounts or other items within the financial statements, with such amounts or other items in the financial statements.

9.8.4. While reading the other information, the auditor shall also remain alert for indications that the remainder of the other information, which is unrelated to the financial statements or the auditor's knowledge obtained in the audit, appears to be materially misstated.

9.8.5. If the auditor identifies that a material inconsistency appears to exist (or becomes aware that the other information appears to be materially misstated), the auditor shall discuss the matter with management and, if necessary, perform other procedures to conclude whether:

(a) A material misstatement of the other information exists;

(b) A material misstatement of the financial statements exists; or

(c) The auditor's understanding of the entity and its environment needs to be updated.

9.8.6. If the auditor concludes, based on the audit evidence obtained, that a material misstatement of the other information exists, the auditor shall request management to correct the other information. If management:

(a) Agrees to make the correction, the auditor shall determine that the correction has been made; or

(b) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made. If the correction is still not made, the auditor shall consider the implications for the auditor's report in accordance with Table E below or withdraw from the engagement where this is possible.

9.8.7. If the auditor obtained some, or all of, the other information at the date of the auditor's report, the auditor shall include an Other Information section in the auditor's report in accordance with Table E.

TABLE E			

Paragraph or Section	Location	Heading shall include	Content shall include
9.8.8. [Amended by the NZAuASB] NZ9.8.8. Other Information Section	A separate section of the auditor's report	"Other Information" or other appropriate title	(a) A statement that those charged with governance is responsible for the other information; (b) An identification of the other information, if any, obtained by the auditor prior to the date of the auditor's report; (c) A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express an audit opinion or any form of assurance conclusion thereon; (d) A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this ISA (NZ) for LCE; and (e) When other information has been obtained prior to the date of the auditor's report, either: (i) A statement that the auditor has nothing to report; or (ii) If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.

9.8.9. Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor's report shall not include an Other Information section.

9.9. Specific Documentation Requirements

In addition to the general documentation requirements in Part 2.4. which apply throughout the audit engagement, specific matters to be documented relevant to this Part are described below.

9.9.1. The auditor shall document the procedures performed in relation to other information and the final version of the other information.

10. Audits of Group Financial Statements

Content of this Part

Part 10 sets out the special considerations that apply to a group audit. Throughout this Part, "the auditor" should be read as the "group auditor".

Scope of this Part

All Parts of the ISA (NZ) for LCE apply to a group audit. The requirements and guidance in this Part refer to, or expand on, the application of other Parts of the ISA (NZ) for LCE to a group audit.

10.1. Objective

10.1.1. The objective of the auditor is to identify and assess the risks of material misstatement of the group financial statements, whether due to fraud or error, and plan and perform further audit procedures to appropriately respond to those assessed risks.

10.2. Planning Activities

10.2.1. In applying Part 5, the auditor shall establish, and update as necessary, the scope, timing and direction of the group audit. In doing so, the auditor shall determine:

(a) The components at which audit work will be performed; and

(b) The resources needed to perform the group audit engagement.

Components

The determination of components at which to perform audit work is a matter of professional judgement. Matters that may influence the auditor's determination include, for example:

- *The nature of events or conditions that may give rise to risks of material misstatement at the assertion level of the group financial statements that are associated with a component, for example, newly formed or acquired entities or business units or entities or business units in which significant changes have taken place.*
- *The disaggregation of significant classes of transactions, account balances and disclosures in the group financial statements across components, considering the size and nature of assets, liabilities and transactions at the location or business unit relative to the group financial statements.*
- *Whether sufficient appropriate audit evidence is expected to be obtained for all significant classes of transactions, account balances and disclosures in the group financial statements from audit work planned on the financial information of identified components.*
- *The nature and extent of misstatements or control deficiencies identified at a component in prior period audits.*
- *The nature and extent of the commonality of controls across the group and whether, and if so, how, the group centralises activities relevant to financial reporting.*

Based on the understanding of the group's organisational structure and information system, the auditor may determine that the financial information of certain entities or business units may be considered together for purposes of planning and performing audit procedures. For example, a group may have three legal entities with similar business characteristics, operating in the same geographical location, under the same management, and using a common system of internal *control, including the information system. In these circumstances, the auditor may decide to treat these three legal entities as one component.*

Resources

Part 3 requires the engagement partner to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner. The auditor's determination of the resources needed to perform the group audit are a matter of professional judgement and may include the understanding of:

- *The group;*
- *The components within the group at which audit work is to be performed, the location of such components and any related jurisdictional factors such as language, culture and regulation; and*
- *Whether to perform work centrally, at components or a combination thereof.*

10.2.2. If, after the acceptance or continuance of the group audit engagement, the engagement partner concludes that sufficient appropriate audit evidence cannot be obtained, the engagement partner shall consider the possible effects on the group audit.

10.3. Materiality

10.3.1. In applying Part 5, when classes of transactions, account balances or disclosures in the group financial statements are disaggregated across components, for purposes of planning and performing audit procedures, the auditor shall determine component performance materiality. To address aggregation risk, such amount shall be lower than group performance materiality.

The component performance materiality amount may be different for each component. Also, the component performance materiality amount for an individual component need not be an arithmetical portion of the group performance materiality and, consequently, the aggregate of component performance materiality amounts may exceed group performance materiality.

The ISA (NZ) for LCE does not require component performance materiality to be determined for each class of transactions, account balance or disclosure for components at which audit procedures are performed. However, if, in the specific circumstances of the group, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the group financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the group financial statements, Part 5 requires a determination of the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. In these circumstances, the auditor may need to consider whether a component performance materiality lower than the amount may be appropriate for those particular classes of transactions, account balances or disclosures.

The determination of component performance materiality is not a simple mechanical calculation and involves the exercise of professional judgement. Factors the auditor may consider in setting component performance materiality include the following:

- *The extent of disaggregation of the financial information across components (e.g., as the extent of disaggregation across components increases, a lower component performance materiality ordinarily would be appropriate to address aggregation risk). The relative significance of the component to the group may affect the extent of disaggregation (e.g., if a single component represents a large portion of the group, there likely may be less disaggregation across components).*

- *Expectations about the nature, frequency, and magnitude of misstatements in the component financial information, for example the nature and extent of misstatements identified at the component in prior audits.*

To address aggregation risk, paragraph 10.3.1. requires component performance materiality to be lower than group performance materiality. In some circumstances, however, component performance materiality may be set at an amount closer to group performance materiality because there is less aggregation risk, such as when the financial information for one component represents a substantial portion of the group financial statements.

10.4. Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control

10.4.1. In applying Part 6, the auditor shall obtain an understanding of:

(a) The group's organisational structure and its business model, including:

(i) The locations in which the group has its operations or activities;

(ii) The nature of the group's operations or activities and the extent to which they are similar across the group; and

(iii) The extent to which the group's business model integrates the use of IT.

(b) The applicable financial reporting framework and the consistency of accounting policies and practices across the group.

(c) The group's system of internal control, including:

(i) The consolidation process used by the group and consolidation adjustments;

(ii) The nature and extent of commonality of controls;

(iii) How the group centralises activities relevant to financial reporting; and

(iv) How group management communicates significant matters that support the preparation of the group financial statements to management of entities or business units.

10.5. Identifying and Assessing the Risks of Material Misstatement

10.5.1. In applying Part 6, based on the understanding obtained in paragraph 10.4.1. the auditor shall identify and assess the risks of material misstatement of the group financial statements, including with respect to the consolidation process.

In applying Part 6, the auditor is required to identify and assess the risks of material misstatement of the financial statements due to fraud, and to design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement due to fraud at the assertion level. Information used to identify the risks of material misstatement of the group financial statements due to fraud may include the following:

- *Whether there are particular components that are more susceptible to risks of material misstatement due to fraud.*
- *Whether any fraud risk factors or indicators of management bias exist in the consolidation process.*
- *How those charged with governance of the group monitor group management's processes for identifying and responding to the risks of fraud in the group, and the controls group management has established to mitigate these risks.*

- *Responses of those charged with governance of the group, and group management to the auditor's enquiry about whether they have knowledge of any actual, suspected, or alleged fraud affecting a component or the group.*

10.6. Responding to the Assessed Risks of Material Misstatement

10.6.1. In applying Part 7, the auditor shall determine the components at which to perform further audit procedures, and the nature, timing and extent of the work to be performed at those components.

Further audit procedures may be designed and performed centrally if the audit evidence to be obtained from performing further audit procedures on one or more significant classes of transactions, account balances or disclosures in the aggregate will respond to the assessed risks of material misstatement, for example, if the accounting records for the revenue transactions of the entire group are maintained centrally.

The auditor may determine that the financial information of components can be considered as a single population for the purpose of performing further audit procedures, for example, when transactions are considered to be homogeneous because they share the same characteristics, the related risks of material misstatement are the same, and controls are designed and operating in a consistent way. In such cases, group performance materiality often will be used for purposes of performing these procedures.

In other circumstances, procedures to respond to the risks of material misstatement of the group financial statements that are related to the financial information of a component may be more effectively performed at the component level. In responding to the assessed risks of material misstatement, the auditor may determine the following scope of work to be appropriate at a component:

- *Design and perform further audit procedures on the entire financial information of the component;*
- *Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures; or*
- *Perform specific further audit procedures.*

Consolidation Process

10.6.2. The auditor shall design and perform further audit procedures to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. This shall include:

(a) Evaluating whether all entities and business units have been included in the group financial statements as required by the applicable financial reporting framework;

(b) Evaluating the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications;

(c) Evaluating whether management's judgements made in the consolidation process give rise to indicators of possible management bias; and

(d) Responding to assessed risks of material misstatement due to fraud arising from the consolidation process.

The consolidation process may require adjustments and reclassifications to amounts reported in the group financial statements that do not pass through the usual IT applications, and may not be subject to the same controls to which other financial information is subject. The auditor's *evaluation of the appropriateness, completeness and accuracy of the adjustments and reclassifications may include:*

- *Evaluating whether significant adjustments appropriately reflect the events and transactions underlying them;*
- *Determining whether those entities or business units whose financial information has been included in the group financial statements were appropriately included;*
- *Determining whether significant adjustments have been correctly calculated, processed and authorised by group management and, when applicable, by component management;*
- *Determining whether significant adjustments are properly supported and sufficiently documented; and*
- *Evaluating the reconciliation and elimination of intra-group transactions, unrealis~~z~~ed profits, and intra-group account balances.*

10.7. Specific Communication Requirements

10.7.1. The auditor shall communicate the following matters with those charged with governance:

(a) An overview of the work to be performed at the components of the group.

(b) Fraud or suspected fraud involving group management, component management, employees who have significant roles in the group's system of internal control, or others when the fraud resulted in a material misstatement of the group financial statements.

10.8. Specific Documentation Requirements

In addition to the general documentation requirements in Part 2.4. which apply throughout the audit engagement, specific matters to be documented relevant to this Part are described below.

10.8.1. The auditor shall include in the audit documentation:

(a) The basis for the auditor's determination of components for purposes of planning and performing the group audit;

(b) The basis for the determination of component performance materiality; and

(c) Key elements of the understanding of the group's system of internal control.

[NZ]11. Audit of Service Performance Information

Content of this Part

Part 11 sets out the considerations that apply when auditing service performance information, concurrently with the financial statements[54].

Scope of this Part

All parts of the ISA (NZ) for LCE apply when auditing an LCE that reports service performance information and that service performance information is subject to audit[55]. The requirements and guidance in this Part refer to, or expand on, the application of other Parts of the ISA (NZ) for LCE[56] to the audit of service performance information.

~~[TBC]Related guidance on the audit of service performance information and examples of modified opinions, can be found in the *Service Performance Information Supplemental Guide*.~~

11.1. Objectives

11.1.1. The objective of the auditor is to express a reasonable assurance opinion on whether the service performance information presents fairly[57], in all material respects the service performance in accordance with the applicable financial reporting framework.

The auditor may achieve the objectives of this Part by considering the following two steps:

(a) Assess whether the following aspects of the service performance information are appropriate and meaningful in accordance with the applicable financial reporting framework:

- *The elements/aspects of service performance that the entity has selected to report on.*
- *The performance measures and/or descriptions the entity has used to report on what it has done in relation to those elements/aspects of service performance during the reporting period.*
- *The measurement basis or evaluation method used to measure or evaluate the performance measure and/or description.*

(b) Assess whether the reported service performance information fairly reflects the actual service performance and is not materially misstated.

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[54] When the service performance information is not within the scope of the audit engagement, the auditor's responsibility for the service performance information is limited to following the requirements in Part 9.8.

[55] Some entities are required by the applicable financial reporting framework to prepare entity information, including Reporting Requirements for Tier 3 Not-for-Profit Entities, Reporting Requirements for Tier 3 Public Sector Entities, Reporting Requirements for Tier 4 Not-for-Profit Entities, Reporting Requirements for Tier 4 Public Sector Entities. For Tier 3 registered charities and incorporated societies, which have a statutory audit requirement (under the Charities Act 2005 or Incorporated Societies Act 2022), all information required to be prepared by the applicable reporting standard is required to be audited, including the entity information. When the entity information is not within scope of the audit engagement, the auditor's responsibility for the entity information is limited to following the requirements in Part 11.18. and Part 9.8.

[56] In accordance with paragraph NZP.16A, ~~the use of the term "financial statements" in the ISA (NZ) for LCE also refers to "service performance information" and where relevant "entity information" (i.e., where an auditor is applying Part 11).~~the use of "financial statements" also refers to "service performance information" and where relevant "entity information" (i.e., where the audit is an audit of financial statements and service performance information and, where relevant, entity information).

[57] When the service performance information is prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the service performance information achieves fair presentation.

The auditor may benefit from early engagement with the entity to understand the entity's service performance reporting process, where it intends to report its service performance information and address any challenges that may arise to evaluate whether the service performance information is appropriate and meaningful as required by the ISA (NZ) for LCE.

11.2. Terms of the Audit Engagement

11.2.1. In applying Part 4, the auditor shall agree the terms of the audit engagement with those charged with governance, with respect to the audit of service performance information.

Appendix 2A sets out an illustrative engagement letter including service performance information.

11.3. Planning Activities

11.3.1. In applying Part 5, the auditor shall set the scope, timing and direction of the audit to concurrently cover the service performance information and the financial statements. In doing so, the auditor shall:

(a) Consider the factors that, in the auditor's professional judgement, are significant in directing the engagement team's efforts in respect of the audit of service performance information;

(b) Determine the timing of when to evaluate whether the entity's service performance information is appropriate and meaningful; and

(c) Determine the resources needed to perform the audit engagement in respect of the audit of the service performance information.

Resources

Part 3 requires the engagement partner to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner. The auditor's determination of the resources needed to perform the audit of service performance information are a matter of professional judgement.

11.3.2. The auditor shall discuss the following matters with those charged with governance:

(a) What elements/aspects of service performance and performance measures and/or descriptions the entity intends to report as part of its service performance information;

(b) What measurement bases or evaluation methods the entity intends to use to measure or evaluate its performance.

11.3.3. Any concerns identified arising from the discussions in 11.3.2. shall then be communicated to those charged with governance as soon as practicable.

Using the Work of Management's Expert

11.3.4. The auditor shall determine whether information to be used as audit evidence has been prepared using the work of a management's expert.

The requirements for when the auditor uses the work of a management's expert are set out in paragraphs 5.2.9. and 7.4.29.

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

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

Paragraphs 5.2.10. and 7.4.30. set out the auditor's responsibilities when using the work of an auditor's expert.

11.4. Understanding Relevant Aspects of the Entity and the Service Performance Information

In addition to Part 6.3, the auditor is required to understand the following relevant aspects of the entity for this Part, including the entity and its environment, laws and regulations, the service performance information reported, and the system of internal controls over the preparation of service performance information.

Understanding the Entity and Its Environment

11.4.1. The auditor shall obtain an understanding of:

(a) Why the entity exists and what it intends to achieve i.e., its purpose or objective;

(b) What activities or services the entity performs;

(c) The entity's primary stakeholders and users of the service performance information; and

(d) What is considered important to those stakeholders and users identified in (c), and what they may use the service performance information for.

Understanding Laws and Regulations

11.4.2. The auditor shall obtain an understanding of the legal and regulatory framework that specify the form, content, preparation, publication, and audit of service performance information; and how the entity is complying with that framework.

The scope of what service performance information the entity reports may be embodied in law or regulation specific to the entity, industry or sector in which the entity operates and, in particular, with laws and regulations that specify the form and content of service performance information, or which describe the entity's accountability.

The nature of the performance report may be specified in applicable legislation, which may indirectly determine the nature of the performance information to be reported.

The provisions of those laws and regulations may require the entity to present particular service performance information which may be over and above any requirements to comply with the applicable financial reporting framework. As the reporting is required by law and regulation the auditor is not required to assess whether the service performance information is appropriate and meaningful.

Understanding the Service Performance Information Reported

11.4.3. The auditor shall obtain an understanding of:

(a) The applicable financial reporting framework relevant to the service performance information.

(b) The process, including the rationale and logic, to determine what elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods and judgements to report.

(c) The process the entity undertook to identify the intended users of the service performance information and the level of engagement with the intended users.

(d) The measurement bases or evaluation methods used by the entity to assess the performance measures and/or descriptions and how these are made available to intended users.

(e) Changes to the elements/aspects of service performance, performance measures and/or descriptions and the measurement bases or evaluation methods used to report its service performance compared to prior year, planned, forecast or prospective information.

(f) Where the entity intends to report its service performance information.

In the early stages of reporting service performance information, the entity may not have developed an appropriate process, supported by internal controls, to identify its service performance information, or service performance information may be less accurate or complete. The entity may therefore be unable to include certain aspects of its service performance in its service performance information. The auditor exercises professional judgement to conclude on the impact of such omissions (including those for which the entity has provided reasons or explanations). This is particularly relevant since entities will be at varying stages of maturity in respect of preparing service performance information.

Understanding the Entity's System of Internal Control

11.4.4. The auditor shall obtain an understanding of the control environment relevant to the preparation of the service performance information.

The auditor applies paragraph 6.3.14 to determine whether deficiencies have been identified in the entity's system of internal control.

11.5. Applicable Financial Reporting Framework

11.5.1. The auditor shall evaluate whether the service performance information reported or intended to be reported is in accordance with the applicable financial reporting framework.

Principles and requirements for the reporting of service performance information are specified within the applicable financial reporting framework as follows:

(a) For tier 1 and tier 2 public benefit entities: PBE FRS 48 Service Performance Reporting

(b) For tier 3 public benefit entities:

- *Reporting Requirements for Tier 3 Not-for-Profit Entities*
- *Reporting Requirements for Tier 3 Public Sector Entities*

(c) For tier 4 public benefit entities:

- *Reporting Requirements for Tier 4 Not-for-Profit Entities*
- *Reporting Requirements for Tier 4 Public Sector Entities.*

Appropriate and Meaningful

11.5.2. The auditor shall evaluate whether the service performance information is appropriate and meaningful including whether:

(a) It fairly reflects the auditor's understanding of the entity.

(b) It is likely to meet the needs of the intended users to enable an informed assessment of the entity's service performance.

(c) It relates to an element/aspect of service performance that significantly contributes to the entity's core purpose, functions or objectives.

(d) There is likely to be sufficient appropriate evidence to support the performance measure and/or description.

(e) It is capable of measurement or evaluation in a consistent manner from period to period.

(f) It is presented in a way that is easy to follow, concise, logical and aggregated where appropriate so that it will enable a user to identify the main points of the entity's service performance in that year.

The discussion at paragraph 11.3.2. may also assist the auditor in their assessment of whether the service performance information the entity intends to report is appropriate and meaningful.

It is important to engage with the entity as early as possible to understand whether the elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods the entity intends to report are appropriate and meaningful.

The auditor may consider whether the service performance information inappropriately attributes service performance to the entity.

When evaluating whether the service performance information is appropriate and meaningful, the auditor assesses how well the entity has balanced the qualitative characteristics and pervasive constraints when selecting its elements/aspects of service performance, performance measures and/or descriptions, and measurement bases and evaluation methods.

Laws and Regulations

11.5.3. The auditor shall obtain sufficient appropriate audit evidence that the entity has complied with laws and regulations that have a direct material effect on the reporting of service performance information.

11.6. Materiality

11.6.1. The auditor shall:

(a) Using the understanding gained in part 11.4., determine the significant elements/aspects of service performance.

(b) Consider materiality for qualitative service performance information; and/or

(c~~b~~) Determine materiality for quantitative service performance information.

~~(c) For quantitative service performance information, determine performance materiality as applicable in the circumstances.~~

In considering or determining the materiality for service performance information, the auditor may firstly consider which elements/aspects of service performance are important to intended users, i.e. the significant elements/aspects of service performance. Having identified those, the auditor may then consider what are the material performance measures and/or descriptions that measure performance in those significant elements/aspects of service performance.

The auditor's understanding of the entity is important in determining what are the significant elements/aspects of the entity's service performance which are important to users of the service performance information. Understanding what elements/aspects of service performance are significant to users may assist the auditor in focusing their audit efforts and applying professional judgement when considering any misstatements identified.

The concept of materiality is applied by the auditor, in both planning and performing the audit, and to assess whether:

(a) The significant elements/aspects of service performance and related material performance measures and/or descriptions are appropriate and meaningful; and

(b) The service performance information contains individual or collective misstatements, that based on the auditor's judgement, are likely to influence the decisions of the intended users based on the information.

The auditor's considerations and/or determination of materiality is a matter of professional judgement. The evaluation required by paragraph 11.5.2. may assist the auditor to consider and/or determine materiality.

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

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

Considering materiality for qualitative service performance information involves the ~~practitioner~~ auditor to actively reflecting upon factors that may lead to potential material misstatements. Examples of factors that may be relevant to the ~~practitioner's~~ auditor's consideration of materiality for qualitative service performance information include:

- *The importance of the element/aspect of service performance to achieving the entity's service performance objectives.*
- *How the service performance information is presented.*
- *The extent of interest shown in particular aspects of service performance by, for example funders, key stakeholders or the public.*
- *Whether a potential misstatement would be significant based on the ~~practitioner's~~ auditor's understanding of known previous communications to the intended users, on matters relevant to the information needs of those users.*

Considering qualitative factors may help the auditor to identify disclosures that may be more significant to the intended users. Qualitative factors may also be relevant when determining materiality for quantitative disclosures

When determining materiality for quantitative service performance information, a percentage is often applied to a chosen benchmark as a starting point. The benchmark for materiality will likely differ from the financial statements. The auditor may need to exercise professional judgement beyond the traditional approach of applying a percentage to a chosen benchmark.

Materiality may be expressed in terms of the appropriate unit of account for each significant element/aspect of service performance or performance measure and/or description reported. The auditor is unlikely to be able to set an overall materiality because there is unlikely to be a common unit of account.

~~Performance materiality does not address misstatements that would be material solely due to qualitative factors. However, designing procedures to increase the likelihood of the identification of misstatements that are material solely because of qualitative factors, to the extent it is possible to do so, may also assist the practitioner in addressing aggregation risk.~~

11.6.2. If the auditor becomes aware of information during the audit that would have caused the auditor to have determined a different materiality initially, the auditor shall revise the materiality considerations and/or materiality for the service performance information.

11.7. Identifying and Assessing the Risks of Material Misstatement

11.7.1. In applying Part 6.2, the auditor shall design and perform procedures to obtain audit evidence that provides an appropriate basis for:

(a) The identification and assessment of risks of material misstatement, whether due to fraud or error, at service performance information and assertion levels; and

(b) The design of further audit procedures.

11.7.2. In applying part 6.4. and based on the understanding obtained in part 11.4., the auditor shall identify and assess the risks of material misstatement, whether due to fraud or error, of the service performance information:

(a) At the service performance information level. In doing so, the auditor shall determine whether they affect risks at the assertion level and consider the nature and extent of the pervasive effect of identified risks on the service performance information; and

(b) At the assertion level for performance measures, descriptions or disclosures. In doing so, the auditor shall:

(i) Determine the relevant assertions and related significant performance measures, descriptions or disclosures; and

(ii) Assess inherent risk for identified risks of material misstatement at the assertion level by assessing the likelihood and magnitude of misstatement.

Service Performance Information Level Risks

Risks of material misstatement at the service performance information level refer to risks that relate pervasively to the service performance information, and potentially affect many assertions. Risks of this nature are not necessarily risks related to specific assertions (e.g., risk of management bias in the selection of service performance information or in the use of language that misleads).

Assertion Level Risks

In identifying and assessing the risks of material misstatement, the auditor uses assertions to consider the different types of potential misstatements that may occur. Appendix 5 sets out assertions that may be used by the auditor in considering different types of misstatements at the assertion level.

An assertion about performance measures, descriptions or disclosures is a relevant assertion when it has an identified risk of material misstatement. The determination of whether an assertion is a relevant assertion is made before consideration of any related controls (i.e., the inherent risk) and is based on the auditor's consideration of misstatements that have a reasonable possibility of both occurring (i.e., likelihood), and being material if they were to occur (i.e., magnitude).

Significant performance measures, descriptions or disclosures are those for which there is one or more relevant assertions. Determining relevant assertions and the significant performance measures, descriptions or disclosures provides a basis for the identification and assessment of risks of material misstatement.

Assessing Inherent Risk

Due to the variation in aggregation, measurement, and presentation of service performance information, the risk assessment is conducted at a meaningful level to reflect the inherent risk of the particular measure.

Significant Risks

In addition to the requirements regarding significant risks in Part 6.4., specific matters relevant to this Part are described below.

11.7.3. The auditor shall determine whether any of the assessed risks of material misstatement of the service performance information are, in the auditor's professional judgement, a significant risk.

Risks of material misstatement that may be assessed as having higher inherent risk, and may therefore be determined to be a significant risk, may arise from matters such as the following:

- *Performance measures that use a measurement basis or evaluation method that may be subject to differing interpretations.*
- *Performance measures that involve complexity in data collection and processing.*
- *Performance measures that use a measurement basis or evaluation method that involves complex calculations.*
- *Changes in the entity's business that involve changes in service performance.*

Paragraph 11.20.1. includes the specific communications requirements in relation to significant risks.

11.8. Audit Procedures Responsive to the Assessed Risks of Material Misstatement

At the Service Performance Information Level

11.8.1. In applying Part 7, the auditor shall design and implement overall responses to address the assessed risks of material misstatement at the service performance information level, whether due to fraud or error.

The auditor's overall responses at the service performance information level, for example, making general changes to the nature, timing or extent of audit procedures, or adjustments to resources assigned or using experts, are based on those risks that relate pervasively to the service performance information. These may include, for example, risks arising from industry, regulatory and other external factors. Risks of this nature are not necessarily risks related to specific assertions (e.g., risk of management bias in the selection of service performance information or in the use of language that misleads).

11.8.2. In determining overall responses to address the assessed risks of material misstatement due to fraud at the service performance information level, the auditor shall:

(a) Evaluate whether the selection of service performance information by the entity, particularly those related to subjective measurements, may be indicative of fraudulent reporting of service performance information resulting from management's effort to mislead in the reporting of service performance information; and

(b) Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures.

Incorporating an element of unpredictability may be achieved by, for example:

- *Performing substantive procedures on selected elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods not otherwise tested due to their materiality or risk.*
- *Adjusting the timing of audit procedures from that otherwise expected.*
- *Using different sampling methods.*

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

11.8.3. In determining overall responses to address the assessed risks of material misstatement due to fraud at the service performance information level, the auditor shall assign and supervise personnel taking account of the knowledge, skill, and ability of the individuals to be given significant engagement responsibilities and the auditor's assessment of the risks of material misstatement due to fraud for the engagement over the audit of service performance information.

At the Assertion Level

11.8.4. In applying Part 7, the auditor shall design and perform further audit procedures whose nature, timing and extent are based on, and responsive to, assessed risks, whether due to fraud or error, at the assertion level.

Further audit procedures comprise tests of controls and substantive procedures. The auditor may choose to perform tests of controls or they may be required in specific circumstances (see paragraph 11.8.5.(d)). Substantive procedures include tests of details and substantive analytical procedures.

Further audit procedures are responsive to the assessed risk of material misstatement at the assertion level, and provide a clear linkage between the auditor's further procedures and the risk assessment. If the assessed risks of material misstatement are due to fraud risks at the assertion level, the nature, timing and extent of audit procedures may need to be changed to obtain audit evidence that is more relevant and reliable or to obtain additional corroborative information.

The auditor need not design and perform further audit procedures where the assessment of the risk of material misstatement is below the acceptably low level. However, as required by paragraph 11.8.6. irrespective of the assessed risk, the auditor shall perform substantive procedures for all material service performance information.

11.8.5. In designing the further audit procedures, the auditor shall:

(a) Consider the reasons for the assessment given to the risk of material misstatement at the assertion level for each significant performance measure, description or disclosure, including:

(i) The likelihood and magnitude of misstatement due to the characteristics of the significant performance measure, description or disclosure (that is, the inherent risk); and

(ii) Whether the risk assessment takes account of controls that address the risk of material misstatements (that is, the control risk), thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively (where the auditor plans to test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures);

(b) Obtain more persuasive audit evidence the higher the auditor's assessment of risk;

(c) In designing and performing tests of controls, obtain more persuasive audit evidence the greater the reliance the auditor places on the operating effectiveness of controls; and

(d) If the auditor intends to test the operating effectiveness of controls or when substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level, design and perform tests of controls, to obtain sufficient appropriate audit evidence as to the operating effectiveness of such controls.

Internal control systems related to the preparation of service performance may be less developed or less well 'embedded' into the operations than those related to the preparation of financial information. They may be less traditional to those used for financial information and require greater work effort by the auditor to gain an understanding.

In some audits of service performance information, the auditor may not be able to identify many controls, or the extent of documentation prepared by the entity to which they exist or operate may be limited. In such cases, it may be more efficient for the auditor to perform further audit procedures that are primarily substantive procedures.

11.8.6. Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for all material service performance information.

11.9. Sufficient Appropriate Audit Evidence

In addition to the requirements regarding sufficient appropriate audit evidence in Part 2.2. which apply throughout the audit engagement, specific matters relevant to this Part are described below.

11.9.1. The auditor shall obtain sufficient appropriate audit evidence that the:

(a) Significant elements/aspects of service performance, and related material performance measures and/or descriptions, and measurement bases or evaluation methods are appropriate and meaningful; and

(b) Performance measures and/or descriptions have been prepared in accordance with the entity's measurement bases or evaluation methods; and

(c) Performance measures and/or descriptions are not materially misstated.

The auditor is not required to perform an exhaustive search to identify all possible sources of information to be used as evidence. The auditor's understanding of the relevant aspects of the entity and the service performance information from part 11.4. may assist the auditor in identifying appropriate sources of information.

The auditor ordinarily obtains more assurance from consistent evidence obtained from different sources or of a different nature than from items of evidence considered individually. In addition, obtaining information intended to be used as evidence from different sources or of a different nature may indicate that an individual item of information intended to be used as evidence is not reliable. For example, corroborative information obtained from a source independent of the entity may increase the assurance the auditor obtains from a representation from management. Conversely, when evidence obtained from one source is inconsistent with that obtained from another, the auditor determines what additional procedures are necessary to resolve the inconsistency.

One factor that affects the sufficiency or appropriateness of evidence, is whether the source of the information used to prepare the disclosures is accessible. For example, if the service performance information reported includes information from entities outside of the entity's operational control, there may be limitations on access to such information or to the work of another auditor that may have provided assurance on such information. Such limitations may *affect the auditor's evaluation of the relevance and reliability of this information intended to be used as evidence.*

There may be limitations on management's ability to obtain information from entities outside of the entity's operational control. Therefore, the auditor may need to place more focus on whether management's (or those charged with governance's) selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods present service performance information is appropriate and meaningful in accordance with the applicable financial reporting framework, including understanding management's process for obtaining the underlying data.

The auditor may be unable to obtain sufficient appropriate evidence if the auditor determines that it is not practicable to obtain information intended to be used as evidence. For example, management's ability to obtain service performance information attributable to the entity may be limited given a lack of operational control over the other entities with common goals or the absence of direct contractual arrangements. If management is unable to obtain information for material service performance information and has not otherwise obtained such information through other means, the auditor may have a limitation on scope. The auditor's inability to obtain sufficient appropriate evidence requires the auditor to express a qualified opinion or disclaimer of opinion on the service performance information in accordance with paragraph 9.5.2. of the ISA (NZ) for LCE.

Internal sources

The use of internal sources as a basis for reporting the information may present a challenge in the context of obtaining evidence for qualitative service performance information. For example, information may be entered directly into the entity's system on a real time basis without any hard copy documentation to support it, or may be obtained through informal communication by way of telephone calls, email or other internal communications.

The auditor may need to consider what evidence can be obtained to support the information being recorded or gathered in this way as these sources, alone, may not be sufficient. For example, when information is being captured by the entity directly onto a computerised system, the auditor may need to understand and confirm the physical and logical security and access controls in place around the entry of information, and the basis for the entries being made. When information is gathered through informal communications, the preparer's underlying books and records may need to include sufficient evidence to back up those communications.

11.9.2. The auditor shall, where possible, draw on the relationships that exist between the service performance information and the financial statements.

The auditor may be able to identify relationships between the service performance information and the financial information as a sense check that the financial information and service performance information are reflecting a consistent report of the performance of the entity.

The auditor may:

- *Agree or reconcile amounts reported in the service performance information to any underlying financial and non-financial records.*
- *Agree cross references between the service performance information and the financial statements.*

11.9.3. The auditor shall obtain sufficient appropriate audit evidence about whether any disclosures of judgements related to service performance information are reasonable in the context of the requirements of the applicable financial reporting framework.

11.10. Evaluation of Misstatements Identified During the Audit of Service Performance Information

11.10.1. In applying Part 8, the auditor shall consider individually or collectively, all misstatements identified, other than those that are clearly trivial, that are uncorrected by the entity, to evaluate whether the service performance information is free from material misstatement.

A misstatement of the service performance information may arise in relation to:

- *The application of the measurement basis or evaluation method;*
- *Inadequate disclosure of judgements made, where applicable; or*
- *Incomplete disclosures that do not include all disclosures required by the applicable financial reporting framework or do not achieve fair presentation of the service performance information*

If the auditor's assessment is that the significant elements/aspects of service performance and related material performance measures and/or descriptions are not appropriate and meaningful, it is a matter of professional judgement as to whether that gives rise to a material misstatement.

Material misstatements may occur in both qualitative and quantitative service performance information. An individual misstatement, impacting a single significant element/aspect of service performance, performance measure and/or description, may be material.

Misstatements in qualitative information are as important as misstatements in quantitative information. If the misstatements in qualitative information are not corrected by management, or those charged with governance, the auditor may accumulate them by listing them, or marking up or highlighting them in a copy of the service performance information. When it is not possible to add the misstatements together to determine their effect in the aggregate, the auditor may consider whether there are any commonalities among the misstatements, such as whether the misstatements reflect a more favourable outcome that is collectively material, or indicate management bias.

A number of misstatements, when observed collectively across the service performance information, may also be material if they amount to a misleading portrayal of the entity's service performance information. Even though taken individually, each service performance measure and/or description may not be materially misstated, the auditor needs to consider whether the service performance information as a whole is materially misstated.

It is unlikely that the auditor will be able to aggregate misstatements numerically. However, this does not remove the need for the auditor to form a conclusion as to whether uncorrected misstatements are material individually or collectively.

11.11. Written Representations

11.11.1. In applying Part 8, the auditor shall obtain written representations regarding service performance information from those charged with governance, who have appropriate knowledge of the matters concerned and responsibility for the service performance information, that they have fulfilled their responsibility for:

(a) The selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful in accordance with the applicable financial reporting framework.

(b) The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.

(c) The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework.

Appendix 7A sets out an illustrative representation letter including service performance information.

11.12. Forming an Opinion on the Service Performance Information

11.12.1. In applying Part 9, the auditor shall form an opinion on whether the service performance information is appropriate and meaningful and prepared, in all material respects, in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework[58].

11.12.2. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the service performance information is free from material misstatement, whether due to fraud or error. That conclusion shall take into account:

(a) Whether sufficient appropriate audit evidence has been obtained as required by paragraph 11.9.1;

(b) Whether uncorrected misstatements are material, individually or in aggregate; and

(c) The evaluations required by paragraphs 11.12.3. to 11.12.6.

11.12.3. The auditor shall evaluate whether the service performance information is prepared, in all material respects, in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.

11.12.4. When the service performance information is prepared in accordance with a fair presentation framework, the auditor shall also evaluate whether the service performance information achieves fair presentation. This evaluation shall include consideration of whether:

(a) The overall presentation of the service performance information has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed;

(b) The entity has presented service performance information that is appropriate and meaningful;

(c) The measurement bases or evaluation methods are available to intended users;

(d) The overall presentation, structure and content of the service performance information represents the service performance of the entity in a manner that achieves fair presentation; and

(e) The disclosure of the judgements made in reporting the service performance information, if applicable, is reasonable.

The auditor's evaluation about whether the service performance information achieves fair presentation, is a matter of professional judgement.

11.12.5. The auditor shall consider any matters arising during the audit of the financial statements that may affect the auditor's evaluation of the service performance information.

[58] When the service performance information is prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the service performance information achieves fair presentation.

11.12.6. The auditor shall consider the impacts of any matters arising during the audit of the service performance information that may affect the auditor's evaluation of the financial statements.

11.13. Form of Opinion

11.13.1. The auditor's report on the financial statements and the service performance information shall be included in a single report.

11.13.2. The auditor shall express an unmodified opinion, with respect to the service performance information, when the auditor concludes that the service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.

If the financial reporting framework is a fair presentation framework, as is generally the case for general purpose financial reports/ performance reports, the opinion required is on whether the service performance information and financial statements are presented fairly, in all material respects, or give a true and fair view. If the financial reporting framework is a compliance framework, the opinion required is on whether the service performance information and financial statements are prepared, in all material respects, in accordance with the framework.

11.13.3. If service performance information prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor shall discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, determine whether to modify the opinion.

11.13.4. If the service performance information is prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the service performance information achieves fair presentation. However, if in extremely rare circumstances the auditor concludes, based on the audit evidence obtained, that such service performance information is misleading, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor's report.

11.14. Auditor's Report

11.14.1. The auditor shall report in accordance with the specified format and content below unless~~:~~

~~(a) The auditor's report includes a modified opinion, emphasis of matter paragraph, other matter paragraph, material uncertainty related to going concern, other reporting responsibilities, or a separate section dealing with Other Information, in which case the auditor shall modify the auditor's opinion (according to Part 11.15.) or amend the auditor's report (according to Part 11.18.); or~~

~~(b) T~~ the matters in paragraph NZ9.4.1.~~(a) or NZ9.4.1A.~~ are applicable.

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee][59]

Opinion

We have audited[60] the [financial report/ performance report] of [ABC Charity (the Entity), which comprise the financial statements on pages x to xx, and the service performance information on pages x to xx [, and entity information on page x]. The complete set of financial statements comprise the statement of financial position as at December 31, 20XX, and the statement of comprehensive revenue and expense, statement of financial performance, statement of changes in net assets/equity, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information (replace these report names with the appropriate titles)].[61]

In our opinion, the accompanying [financial report/ performance report] presents fairly, in all material respects (or "gives a true and fair view of")[62]:

- [the entity information as at December 31, 20XX;]
- the financial position of the [Entity] as at December 31, 20XX, and its financial performance, and its cash flows for the year then ended; and
- the service performance for the year ended December 31, 20XX in that the service performance information is appropriate and meaningful and prepared in accordance with the [Entity]'s measurement bases or evaluation methods

in accordance with [the applicable financial reporting framework] issued by the New Zealand Accounting Standards Board.[63]

Basis for Opinion

We conducted our audit in accordance with the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities (the ISA (NZ) for LCE). Our responsibilities under the ISA (NZ) for LCE are further described in the *Auditor's Responsibilities for the Audit of the [Financial Report/ Performance Report]* section of our report.[64] We are independent of the [Entity] in accordance with *Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including*

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59 Matters reflected in the specified format and content of the auditor's report in square brackets (e.g. [ ]) are to be tailored accordingly.

60 When disclaiming an opinion, the statement which indicates that the [financial report/ performance report] have been audited is amended to state that the auditor was engaged to audit the [financial report/ performance report].

61 Identify the entity whose [financial report/ performance report] have been audited; identify each financial statement, the statement of service performance, the entity information (if applicable); and its date and period, and refer to the notes and significant accounting policies or use another appropriate description in accordance with the applicable financial reporting framework.

62 See also paragraph 11.4.2. When the [financial report/ performance report] is prepared in accordance with a compliance framework, the opinion and description of the auditor's responsibilities refer instead to whether the [financial report/ performance report] is prepared, in all material respects, in accordance with the applicable financial reporting framework.

63 Identify the jurisdiction of origin of the financial reporting framework if it is not International Financial Reporting Standards or International Public Sector Accounting Standards as issued by the International Public Sector Accounting Standards Board. For an entity in New Zealand, that is required to apply the New Zealand Accounting Standards Framework, the reference to the applicable financial reporting framework in the auditor's opinion should be to the applicable financial reporting requirements issued by the New Zealand Accounting Standards Board of the External Reporting Board that apply to the tier under which the entity is reporting.

64 When the auditor disclaims an opinion on the [financial report/ performance report], this statement is not included in the auditor's report.

International Independence Standards (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, 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.[65]

Other than in our capacity as auditor we have no relationship with, or interests in, the [Entity][66].

Responsibilities of [Those Charged with Governance] for the [Financial Report/ Performance Report]

[Those Charged with Governance] are responsible on behalf of the [Entity] for:

- The preparation [and fair presentation] of the [financial report/ performance report] in accordance with [applicable financial reporting framework],[67]
- The selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful in accordance with the applicable financial reporting framework;
- The preparation and fair presentation of service performance information in accordance with the [Entity's] measurement bases or evaluation methods, in accordance with the applicable financial reporting framework;
- The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework; and
- Such internal control as [Those Charged with Governance] determine is necessary to enable the preparation of a [financial report/ performance report] that is free from material misstatement, whether due to fraud or error.

In preparing the [financial report/ performance report], [Those Charged with Governance] are responsible for assessing the [Entity's] ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless [Those Charged with Governance] either intends to liquidate the [Entity] or to cease operations, or have no realistic alternative but to do so.

[65] When the auditor expresses a qualified or adverse opinion, the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion is amended to include the word "qualified" or "adverse", as appropriate. When the auditor disclaims an opinion on the [financial report/ performance report], this statement is not included in the auditor's report.

[66] If the auditor has any relationship (other than that of auditor) with, or any interests in, the entity, then this statement is amended.

[67] Where Those Charged with Governance's responsibility is to prepare [financial report/ performance report] that give a true and fair view, this may read: "Those Charged with Governance are responsible for the preparation of a [financial report/ performance report] that gives a true and fair view in accordance with [applicable financial reporting framework], and for such ..."

Auditor's Responsibilities for the Audit of the [Financial Report/ Performance Report][68 69]

Our objectives are to obtain reasonable assurance about whether the [financial report/ performance report] as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISA (NZ) for LCE will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this [financial report/ performance report].

As part of an audit in accordance with the ISA (NZ) for LCE, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the [financial report/ performance report], whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the [Entity's] internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by [management and Those Charged with Governance].
- Obtain an understanding of the process applied by the [Entity] to select its elements/aspects of service performance, performance measures and/or descriptions and the measurement bases or evaluation methods.
- Evaluate whether the selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods present an appropriate and meaningful assessment of the [Entity's] service performance in accordance with the applicable financial reporting framework.
- Evaluate whether the service performance information is prepared in accordance with the [Entity's] measurement bases or evaluation methods, in accordance with the applicable financial reporting

68 The description of the auditor's responsibilities may also be included within an appendix, or refer to a description to the relevant page of the auditor's responsibilities on the External Reporting Board's website at https://www.xrb.govt.nz/standards/assurance-standards/auditors-responsibilities/. The auditor shall determine that such a description is not inconsistent with this ISA (NZ) for LCE. In such cases, a reference to the location of appendix or description shall be included within the auditor's report, accompanied by "This description forms part of our auditor's report". When the auditor disclaims an opinion, the description of the auditor's responsibilities only includes the matters required by paragraph 9.5.33. – in this context, the reference to financial statements in paragraph 9.5.33. can also be interpreted as service performance information as well.

69 When Part 10 applies, further describe the auditor's responsibilities in a group audit engagement by stating that:

(i) The auditor's responsibilities are to plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group [financial report/ performance report];

(ii) The auditor is responsible for the direction, supervision and review of the audit work performed for purposes of the group audit; and

(iii) The auditor remains solely responsible for the auditor's opinion.

framework.

- Conclude on the appropriateness of [Those Charged with Governance]'s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [Entity's] ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the [financial report/ performance report] or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the [Entity] to cease to continue as a going concern.
- [Evaluate the overall presentation, structure and content of the [financial report/ performance report], including the disclosures, and whether the [financial report/ performance report] represent the underlying transactions and events in a manner that achieves fair presentation.][70]

We communicate with [management, and where appropriate, those charged with governance] regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[*Signature in the name of the audit firm*[71]]

[*Auditor Address: name the location in the jurisdiction where the auditor practices]*

[Date: No earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the [financial report/ performance report], including evidence that (i) All the statements and disclosures that comprise the [financial report/ performance report] have been prepared; and (ii) Those with the recognised authority have asserted that they have taken responsibility for the [financial report/ performance report].]

11.14.2. In applying paragraph 9.4.2., when the service performance information is prepared in accordance with a fair presentation framework, the auditor shall refer to "the preparation and fair presentation of the service performance information" or "the preparation of service performance information that give a true and fair view," as appropriate in the circumstances, in the description of responsibilities for the service performance information in the auditor's report.

11.14.3. The auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor shall indicate in the auditor's report that the reference does not reduce the auditor's responsibility for the auditor's opinion.

11.15. Modifications to the Opinion

Part 9.5. sets out the requirements for which a modified opinion is to be used in different situations, and the form and content of a modified opinion.

The opinion on the financial statements, in many instances, will not be impacted by a modification with respect to the service performance information.

Tables A to C in Part 9.5. may also be relevant when the auditor issues a modified opinion over service performance information. In this context, the use of "financial statements" within these Tables also refers to "service performance information".

[70] Relevant when the [financial report/ performance report] is prepared in accordance with a fair presentation framework.

[71] [NZ] Law or regulation may require that the auditors' report include the name of the engagement partner responsible for audits. The auditor may be required by law or regulation, or may decide, to include additional information beyond the engagement partner's name in the auditor's report to further identify the engagement partner, for example, the engagement partner's professional license number that is relevant to where the auditor practices.

11.15.1. The auditor shall modify the opinion in the auditor's report, with respect to the service performance information when:

(a) The auditor concludes that either individually or collectively the service performance information is materially misstated in that it is not appropriate and meaningful and as such is not in accordance with the applicable financial reporting framework, or

(b) The auditor concludes, based on the audit evidence obtained, that the service performance information is not individually or collectively free from material misstatement, or

(c) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the service performance information, as a whole, is free from material misstatement.

11.15.2. When the auditor modifies the opinion with respect to the service performance information, the auditor shall consider the effect of the modification on the opinion on the financial statements.

11.15.3. When the auditor modifies the audit opinion with respect to the service performance information only, the audit opinion shall clearly indicate that the opinion on the financial statements is not modified. The auditor shall use the headings "Qualified Opinion on the Service Performance Information", "Adverse Opinion on the Service Performance Information" or "Disclaimer of Opinion on the Service Performance Information" as appropriate. The opinion with respect to the financial statements shall use the heading "Opinion on the Financial Statements".

11.15.4. If the auditor modifies the opinion on the financial statements, the auditor shall consider the effect of the modification on the opinion on the service performance information.

11.16. Other Paragraphs in the Auditor's Report

Part 9.6. sets out when Emphasis of Matter paragraphs and Other Matter paragraphs in the auditor's report are used.

In the context of an audit of service performance information, an Emphasis of Matter paragraph or an Other Matter paragraph may describe for example:

- *The underlying facts and information about the entity's process to select what service performance to report on (e.g., the maturity of the entity's process compared to others in the industry).*
- *The source and method used to measure or evaluate the service performance information and whether they are externally established (e.g., established in legislation or externally established performance frameworks).*
- *Any significant interpretations made in selecting the entity's service performance information or applying the method(s) to measure or evaluate.*
- *Whether there have been any changes in the service performance information disclosed or measurement bases or evaluation methods used.*
- *Any other matters the auditor considers necessary to assist intended users in making decisions based on the service performance information.*
- *Information the auditor considers would enhance transparency and assist the user to understand the level of maturity that the entity has achieved in its reporting.*

Emphasis of Matter Paragraphs

11.16.1. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the service performance information that, in the auditor's professional judgement, is of such importance that it is fundamental to the users' understanding of the service performance information, and the auditor would not be required to modify the opinion as a result of that matter, the auditor shall include an Emphasis of Matter paragraph in the auditor's report indicating that the auditor's report is not modified in respect of the matter emphasised.

Other Matter Paragraphs

11.16.2. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the service performance information that, in the auditor's professional judgement, is relevant to the users' understanding of the audit, the auditor's responsibilities or the auditor's report the auditor shall include an Other Matter paragraph in the auditor's report provided this is not prohibited by law or regulation.

11.17. Comparative and Prospective Service Performance Information

Comparative Service Performance Information

11.17.1. In applying part 9.7, the auditor shall determine whether:

(a) Prior period comparative service performance information agrees with disclosures presented in the prior period or when appropriate, have been restated; and

(b) The elements/aspects of service performance, performance measure and/or descriptions, or measurement bases or evaluation methods is consistent with the current period or, if there have been changes, whether those changes have been properly accounted for and adequately presented and disclosed.

Prospective Service Performance Information

11.17.2. Where the entity presents a comparison of published prospective service performance information with the service performance information, the auditor shall:

(a) Assess whether the prospective service performance information agrees with the information presented in the published prospective service performance information; or

(b) Assess that any changes have been properly accounted for and adequately presented and disclosed.

11.18. Other Information

"Other information" is financial or non-financial information (other than the financial statements, service performance information and the auditor's report thereon) included in an entity's annual report.

In the context of service performance information, the distinction between the audited service performance information and the "other information" is not as pronounced as it is for financial information. As a consequence, quite subtle changes in the way that information is presented in the "other information" (such as wording used to describe performance) may provide a misleading impression of the entity's actual performance when compared to the audited service performance information.

11.18.1. In applying Part 9.8, the auditor shall read the other information, and:

(a) Consider whether there is a material inconsistency between the other information and the service performance information; and

(b) Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit.

11.19. Specific Focus Areas

Using the Services of a Service Organisation

11.19.1. In applying parts 6.3 and 7.4, if the entity is using the services of a service organisation in the context of service performance information, the auditor shall:

(a) Determine whether sufficient appropriate audit evidence concerning the relevant service performance information assertions is available at the entity; and, if not,

(b) Perform further audit procedures to obtain sufficient appropriate audit evidence.

To obtain sufficient appropriate audit evidence, the following procedures may be considered by the auditor:

- *Inspect records and documents held by the user entity;*
- *Inspect records and documents held by the service organisation;*
- *Obtain confirmations of service performance information from the service organisation in instances where the user entity maintains its own independent records of service performance information.*

Audit of Group Service Performance Information

11.19.2. If applying Part 10, the auditor shall obtain sufficient appropriate audit evidence regarding:

(a) the service performance information of the components; and

(b) the aggregation or consolidation process as it relates to the service performance information.

11.20. Specific Communication Requirements

11.20.1. The auditor shall communicate, unless prohibited by law and regulation, the following matters with those charged with governance:

(a) Any significant risks identified with the service performance information.

(b) The auditor's views about significant judgements made in reporting the entity's service performance information, including any significant deficiencies or areas for improvement.

(c) Significant difficulties, if any, encountered during the audit of service performance information.

(d) Unless all of those charged with governance are involved in managing the entity, significant matters arising during the audit that were discussed, or subject to correspondence with management.

(e) Matters involving non-compliance with laws and regulations with respect to service performance information reporting obligations.

(f) Deficiencies in internal control with respect to the service performance information that, in the auditor's professional judgement, are of sufficient importance to merit attention.

(g) Uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion on the service performance information in the auditor's report and request that they are corrected.

(h) Any modifications including the circumstances and the wording the auditor expects to make to the opinion relating to service performance information in the auditor's report.

11.21. Specific Documentation Requirements

In addition to the general documentation requirements in Part 2.4. which apply throughout the audit engagement, and other documentation requirements in this standard which may apply to the audit of service performance information, specific matters to be documented relevant to this Part are described below.

11.21.1. The auditor shall include the following in the audit documentation:

(a) The audit engagement letter or other suitable form of written agreement shall include the requirements of paragraph NZ4.7.4, as well as the following with respect to service performance information:

(i) The objective and scope of the audit, and

(ii) The respective responsibilities of the auditor and those charged with governance,

(iii) Identification of the applicable financial reporting framework,

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

(b) The identified significant elements/aspects of service performance;

(c) The factors relevant to the ~~practitioner's~~ auditor's consideration of materiality for qualitative service performance information;

(d) The basis for the determination of materiality for quantitative service performance information;

~~(e) The basis for the determination of performance materiality~~

(e~~f~~) The overall responses to the assessed risks of material misstatement at the service performance information level;

(~~g~~f) The linkage between the procedures performed and the assessed risks at the assertion level;

(~~h~~g) The results of the audit procedures, including the conclusions where these are not otherwise clear;

(~~i~~h) All misstatements accumulated during the audit and whether they have been corrected; and

(~~j~~i) As far as possible, evidence of relevant relationships between the service performance information and the financial statements.

APPENDIX 1

Glossary of Terms

This glossary lists the terms that are defined for the purpose of the ISA (NZ) for LCE. The definitions assist in the consistent application and interpretation of this standard, and are not intended to override definitions that may be established for other purposes, whether in law or regulation or otherwise. Unless otherwise indicated, the definitions carry the same meanings throughout this standard. In addition, this glossary includes descriptions of other terms found in the ISA (NZ) for LCE to assist in common and consistent interpretation and translation (such other terms are identified by an asterisk "*").

Accounting estimate—A monetary amount for which the measurement, in accordance with the requirements of the applicable financial reporting framework, is subject to estimation uncertainty.

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

Aggregation risk—The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statement as a whole.

Analytical procedures—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.

Annual report—A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters.

Anomaly—A misstatement or deviation that is demonstrably not representative of misstatements or deviations in a population.

Applicable financial reporting framework—The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.

The term "fair presentation framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

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

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

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

Appropriateness (of audit evidence)—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.

Arm’s length transaction—A transaction conducted on such terms and conditions as between a willing buyer and a willing seller who are unrelated and are acting independently of each other and pursuing their own best interests.

**** Assess—***Analyse identified risks of material misstatement to conclude on their significance. “Assess,” by convention, is used only in relation to risk. (also see *Evaluate*)

Assertions—Representations, explicit or otherwise, with respect to the recognition, measurement, presentation and disclosure of information in the financial statements which are inherent in management representing that the financial statements are prepared in accordance with the applicable financial reporting framework. Assertions are used by the auditor to consider the different types of potential misstatements that may occur when identifying, assessing and responding to the risks of material misstatement.

Assurance—(see *Reasonable assurance*)

[NZ] Assurance practitioner—A person or an organisation, whether in public practice, industry, commerce or the public sector, appointed or engaged to undertake assurance engagements or related services.

Audit documentation—The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as “working papers” or “workpapers” are also sometimes used).

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. (See *Sufficiency of audit evidence* and *Appropriateness of audit evidence*.)

Audit file—One or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.

Audit firm—(see *Firm*)

Audit opinion—(see *Modified opinion and Unmodified opinion*)

Audit risk—The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk.

Audit sampling (sampling)—The application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.

Auditor—“Auditor” is used to refer to the person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. Where the ISA (NZ) for LCE expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “auditor” is used. “Engagement partner” and “firm” are to be read as referring to their public sector equivalents where relevant.

Auditor’s expert—An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's expert may be either an auditor's internal expert (who is a partner[72] or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert.

Auditor's point estimate or auditor's range—An amount, or range of amounts, respectively, developed by the auditor in evaluating management's point estimate.

Auditor's range—(see Auditor's point estimate)

Business risk—A risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity's ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies.

Comparative financial statements—Comparative information where amounts and other disclosures for the prior period are included for comparison with the financial statements of the current period but, if audited, are referred to in the auditor's opinion. The level of information included in those comparative financial statements is comparable with that of the financial statements of the current period.

Comparative information—The amounts and disclosures included in the financial statements in respect of one or more prior periods in accordance with the applicable financial reporting framework.

Compliance framework—(see *Applicable financial reporting framework* and *General purpose framework*)

Component—An entity, business unit, function or business activity, or some combination thereof, determined by the auditor for purposes of planning and performing audit procedures in a group audit.

Component auditor—An auditor who performs audit work related to a component for purposes of the group audit. A component auditor is a part of the engagement team for a group audit.

Component management—Management responsible for a component.

Component performance materiality—An amount set by the auditor to reduce aggregation risk to an appropriately low level for purposes of planning and performing audit procedures in relation to a component.

*** *Control activities***—Those policies and procedures that help ensure that management directives are carried out. Control activities are a component of internal control.

*** *Control environment***—Includes the governance and management functions and the attitudes, awareness and actions of those charged with governance and management concerning the entity's internal control and its importance in the entity. The control environment is a component of internal control.

Control risk—(see *Risk of material misstatement*)

*** *Controls at the service organisation***—Controls over the achievement of a control objective that is covered by the service auditor's assurance report.

*** *Corporate governance***—(see *Governance*)

Corresponding figures—Comparative information where amounts and other disclosures for the prior period are included as an integral part of the current period financial statements, and are intended to be read only in relation to the amounts and other disclosures relating to the current period (referred to as "current period figures"). The level of detail presented in the corresponding amounts and disclosures is dictated primarily by its relevance to the current period figures.

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[72] "Partner" and "firm" should be read as referring to their public sector equivalents where relevant.

Controls—Policies or procedures that an entity establishes to achieve the control objectives of management or those charged with governance. In this context:

(a) Policies are statements of what should, or should not, be done within the entity to effect control. Such statements may be documented, explicitly stated in communications, or implied through actions and decisions.

(b) Procedures are actions to implement policies.

Date of approval of the financial statements—The date on which all the statements that comprise the financial statements, including the related notes, have been prepared and those with the recognised authority have asserted that they have taken responsibility for those financial statements.

Date of the auditor's report—The date the auditor dates the report on the financial statements.

Date of the financial statements—The date of the end of the latest period covered by the financial statements.

Date the financial statements are issued—The date that the auditor's report and audited financial statements are made available to third parties.

Deficiency in internal control—This exists when:

(a) A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or

(b) A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.

Detection risk—The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

Emphasis of Matter paragraph—A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

**** Engagement letter***—Written terms of an engagement in the form of a letter.

Engagement partner[73]—The partner or other individual, appointed by the firm, who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

[NZ] Public Sector Considerations

Engagement partner includes an employee of the Auditor-General, whom the Auditor-General has appointed under the Public Audit Act 2001 to act as an auditor and who: (i) Is responsible for the engagement and its performance, and for the report that is issued on behalf of the Auditor-General; and (ii) Where required, has the appropriate authority from a professional, legal or regulatory body.

Engagement quality review—An objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.

Engagement quality reviewer—A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.

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[73] "Engagement partner," "partner," and "firm" is to be read as referring to their public sector equivalents where relevant.

Engagement team—All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an auditor's external expert and internal auditors who provide direct assistance on an engagement.

*** Enquiry***—Enquiry consists of seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity.

*** Error***—An unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Estimation uncertainty—Susceptibility to an inherent lack of precision in measurement.

*** Evaluate***—Identify and analyse the relevant issues, including performing further procedures as necessary, to come to a specific conclusion on a matter. "Evaluation," by convention, is used only in relation to a range of matters, including evidence, the results of procedures and the effectiveness of management's response to a risk. (also see *Assess)*

Exception—A response that indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party.

Experienced auditor—An individual (whether internal or external to the firm) who has practical audit experience, and a reasonable understanding of:

(a) Audit processes;

(b) The ISA (NZ) for LCE and applicable legal and regulatory requirements;

(c) The business environment in which the entity operates; and

(d) Auditing and financial reporting issues relevant to the entity's industry.

Expert—(see *Auditor's expert* and *Management's expert*)

Expertise—Skills, knowledge and experience in a particular field.

External confirmation—Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium.

External information source—An external individual or organisation that provides information that has been used by the entity in preparing the financial statements, or that has been obtained by the auditor as audit evidence, when such information is suitable for use by a broad range of users. When information has been provided by an individual or organisation acting in the capacity of a management's expert, service organisation, or auditor's expert the individual or organisation is not considered an external information source with respect to that particular information.

Fair presentation framework—(see *Applicable financial reporting framework* and *General purpose framework*)

Financial statements—A structured representation of historical financial information, including disclosures, intended to communicate an entity's economic resources or obligations at a point in time, or the changes therein for a period of time, in accordance with a financial reporting framework. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement. Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of a financial statement, or in the notes, or incorporated therein by cross-reference.

[NZ] Firm—A sole practitioner, partnership or corporation or other entity of assurance practitioners, or public sector equivalent.

Public Sector Considerations

Firm includes the Auditor-General as defined in section 10(1) of the Public Audit Act 2001.

Fraud—An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

Fraud risk factors—Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

**** Fraudulent financial reporting***—Involves intentional misstatements, including omissions of amounts or disclosures in financial statements, to deceive financial statement users.

**** Further procedures***—Procedures performed in response to assessed risks of *material* misstatement, including tests of controls (if any), tests of details and analytical procedures.

General purpose financial statements—Financial statements prepared in accordance with a general purpose framework.

General information technology (IT) controls—Controls over the entity's IT processes that support the continued proper operation of the IT environment, including the continued effective functioning of information processing controls and the integrity of information (i.e., the completeness, accuracy and validity of information) in the entity's information system. Also see the definition of *IT environment*.

General purpose framework—A financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework.

The term "fair presentation framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

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

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

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

Group financial statements—Financial statements that include the financial information of more than one entity or business unit through a consolidation process. For purposes of the ISA (NZ) for LCE, a consolidation process includes:

(a) Consolidation, proportionate consolidation, or an equity method of accounting;

(b) The presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control or common management; or

The aggregation of the financial information of entities or business units such as branches or divisions.

Internal audit function—A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes.

**** Internal auditors***—Those individuals who carry out the activities of the internal audit function. Internal auditors may belong to an internal audit department or similar function.

**** Internal control***—The process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term "controls" refers to any aspects of one or more of the components of internal control.

International Financial Reporting Standards—The International Financial Reporting Standards issued by the International Accounting Standards Board.

Non-compliance (in the context of laws and regulations)—Acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or employees. Non-compliance does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity.

[NZ] Misstatement (in the context of Part 11)—Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions. Misstatements can arise from error or fraud when:

(i) An element/aspect of service performance or performance measure and/or description, or a measurement basis or evaluation method is not appropriate and meaningful; or

(ii) An element/aspect of service performance or performance measure and/or description that would be appropriate and meaningful is omitted; or

(iii) Incorrectly measuring or evaluating the entity's service performance.

Non-response—A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered.

**** Observation***—Consists of looking at a process or procedure being performed by others, for example, the auditor's observation of inventory counting by the entity's personnel, or of the performance of control activities.

Opening balances—Those account balances that exist at the beginning of the period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period. Opening balances also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.

Other information—Financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report.

Other Matter paragraph—A paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Outcome of an accounting estimate—The actual monetary amount which results from the resolution of the underlying transaction(s), event(s) or condition(s) addressed by the accounting estimate.

[NZ] Partner—Any individual with authority to bind the firm with respect to the performance of an engagement governed by the Standards of the XRB (including audits or reviews of financial statements, or other assurance or related services engagements[74]).

Public Sector Considerations

[74] [NZ] As defined by XRB Au 1 *Application of Auditing and Assurance Standards (Legislative Update).*

Partner includes an employee of the Auditor-General with authority to bind the Auditor-General with respect to the performance of an engagement governed by the Standards of the XRB (including audits or reviews of financial statements, or other assurance or related services engagements).

Performance materiality—The amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures.

Personnel—Partners and staff of the firm.

Pervasive—A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgement:

(a) Are not confined to specific elements, accounts or items of the financial statements;

(b) If so confined, represent or could represent a substantial proportion of the financial statements; or

(c) In relation to disclosures, are fundamental to users' understanding of the financial statements.

Population—The entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.

Positive confirmation request—A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information.

Preconditions for an audit—The use by management of an acceptable financial reporting framework in the preparation of the financial statements and the agreement of management and, where appropriate, those charged with governance to the premise on which an audit is conducted.

Predecessor auditor—The auditor from a different audit firm, who audited the financial statements of an entity in the prior period and who has been replaced by the current auditor.

Premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted—That management and, where appropriate, those charged with governance have acknowledged and understand that they have the following responsibilities that are fundamental to the conduct of an audit in accordance with the ISA (NZ) for LCE. That is, responsibility:

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

(b) For such internal control as management and, where appropriate, those charged with governance determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and

(c) To provide the auditor with:

    (i) Access to all information of which management and, where appropriate, those charged with governance are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

(ii) Additional information that the auditor may request from management and, where appropriate, those charged with governance for the purpose of the audit; and

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

In the case of a fair presentation framework, (a) above may be restated as "for the preparation and *fair* presentation of the financial statements in accordance with the financial reporting framework," or "for the preparation of financial statements *that give a true and fair view* in accordance with the financial reporting framework."

The "premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted" may also be referred to as the "premise."

Professional judgement—The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.

Professional scepticism—An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.

[NZ] Professional standards—In the context of this standard, the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities (ISA (NZ) for LCE) and relevant ethical requirements issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board.

**** Public sector***—National governments, regional (for example, state, provincial, territorial) governments, local (for example, city, town) governments and related governmental entities (for example, agencies, boards, commissions and enterprises).

Reasonable assurance (in the context of audit engagements)—A high, but not absolute, level of assurance.

**** Recalculation***—Consists of checking the mathematical accuracy of documents or records.

Related party—A party that is either:

(a) A related party as defined in the applicable financial reporting framework; or

(b) Where the applicable financial reporting framework establishes minimal or no related party requirements:

(i) A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity;

(ii) Another entity over which the reporting entity has control or significant influence, directly or indirectly through one or more intermediaries; or

(iii) Another entity that is under common control with the reporting entity through having:

a. Common controlling ownership;

b. Owners who are close family members; or

c. Common key management.

However, entities that are under common control by a state (that is, a national, regional or local government) are not considered related unless they engage in significant transactions or share resources to a significant extent with one another.

Relevant assertions—An assertion about a class of transactions, account balance or disclosure is relevant when it has an identified risk of material misstatement. The determination of whether an assertion is a relevant assertion is made before consideration of any related controls (i.e., the inherent risk).

[NZ] Relevant ethical requirements—Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking the audit engagement. Relevant ethical requirements in New Zealand ordinarily comprise the provisions of the Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* related to audits of financial statements.

**** Reperformance***—The auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal controls.

Risks arising from the use of IT—Susceptibility of information processing controls to ineffective design or operation, or risks to the integrity of information (i.e., the completeness, accuracy and validity of transactions and other information) in the entity's information system, due to ineffective design or operation of controls in the entity's IT processes (see IT environment).

Risk of material misstatement—The risk that the financial statements are materially misstated prior to audit. This consists of two components, described as follows at the assertion level:

(a) Inherent risk—The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

(b) Control risk—The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

[NZ] Risk of material misstatement (in the context of Part 11)—The risk that the service performance information is materially misstated prior to the audit. This consists of two components, described as follows at the assertion level:

(i) Inherent risk – The susceptibility of an assertion about a performance measure and/or description, measurement basis or evaluation method or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

(ii) Control risk – The risk that a misstatement that could occur in an assertion about a performance measure and/or description, measurement basis or evaluation method or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's system of internal controls.

Sampling—(see *Audit sampling*)

Sampling risk—The risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure. Sampling risk can lead to two types of erroneous conclusions:

(a) In the case of a test of controls, that controls are more effective than they actually are, or in the case of a test of details, that a material misstatement does not exist when in fact it does. The auditor is primarily concerned with this type of erroneous conclusion because it affects audit effectiveness and is more likely to lead to an inappropriate audit opinion.

(b) In the case of a test of controls, that controls are less effective than they actually are, or in the case of a test of details, that a material misstatement exists when in fact it does not. This type of erroneous conclusion affects audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect.

Sampling unit—The individual items constituting a population.

Service auditor—An auditor who, at the request of the service organisation, provides an assurance report on the controls of a service organisation.

Service organisation—A third-party organisation (or segment of a third-party organisation) that provides services to user entities that are relevant to a user entity's process to prepare its financial statements .

*** *Significance***—The relative importance of a matter, taken in context. The significance of a matter is judged by the practitioner in the context in which it is being considered. This might include, for example, the reasonable prospect of its changing or influencing the decisions of intended users of the practitioner's report; or, as another example, where the context is a judgement about whether to report a matter to those charged with governance, whether the matter would be regarded as important by them in relation to their duties. Significance can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients.

Significant class of transactions, account balance or disclosure—A class of transactions, account balance or disclosure for which there is one or more relevant assertions.

Significant deficiency in internal control—A deficiency or combination of deficiencies in internal control that, in the auditor's professional judgement, is of sufficient importance to merit the attention of those charged with governance.

Significant risk—An identified risk of material misstatement:

(a) For which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the significance of the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur; or

(b) That is to be treated as a significant risk in accordance with the requirements of the ISA (NZ) for LCE.

Special purpose financial statements—Financial statements prepared in accordance with a special purpose framework.

Special purpose framework—A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.

Statistical sampling—An approach to sampling that has the following characteristics:

(a) Random selection of the sample items; and

(b) The use of probability theory to evaluate sample results, including measurement of sampling risk.

A sampling approach that does not have characteristics (a) and (b) is considered non-statistical sampling.

Stratification—The process of dividing a population into sub-populations, each of which is a group of sampling units which have similar characteristics (often monetary value).

Subsequent events—Events occurring between the date of the financial statements and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report.

Substantive procedure—An audit procedure designed to detect material misstatements at the assertion level. Substantive procedures comprise:

(a) Tests of details (of classes of transactions, account balances, and disclosures); and

(b) Substantive analytical procedures.

Sufficiency (of audit evidence)—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.

System of internal control—The system designed, implemented and maintained by those charged with governance, management and other personnel, to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

*** *Test***—The application of procedures to some or all items in a population.

Tests of controls—An audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.

Those charged with governance—The person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

Tolerable misstatement—A monetary amount set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the monetary amount set by the auditor is not exceeded by the actual misstatement in the population.

***Tolerable rate of deviation*—**A rate of deviation from prescribed internal control procedures set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the rate of deviation set by the auditor is not exceeded by the actual rate of deviation in the population.

Uncorrected misstatements—Misstatements that the auditor has accumulated during the audit and that have not been corrected.

Unmodified opinion—The opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

User entity—An entity that uses a service organisation and whose financial statements are being audited.

Walk-through test (or Walk-through)—Involves tracing a few transactions through the financial reporting system.

Written representation—A written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. Written representations in this context do not include financial statements, the assertions therein, or supporting books and records.

[NZ] APPENDIX 2

Illustrative Engagement Letter

The following is an illustrative engagement letter for an audit of general purpose financial statements prepared in accordance with [applicable financial reporting framework]. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in the ISA (NZ) for LCE. It will need to be varied according to individual requirements and circumstances. It is drafted to refer to the audit of financial statements for a single reporting period and would require adaptation if intended or expected to apply to recurring audits (see paragraph 4.4.2). It may be appropriate to seek legal advice that any proposed letter is suitable.

***

To the appropriate representative of those charged with governance of ABC Company:[75]

[*The objective and scope of the audit*]

You[76] have requested that we audit the financial statements of [ABC Company (the "entity")], which comprise the statement of financial position as at December 31, 20XX, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities (ISA (NZ) for LCE) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

[*The responsibilities of the auditor*]

We will conduct our audit in accordance with the ISA (NZ) for LCE. The ISA (NZ) for LCE requires that we comply with ethical requirements. As part of an audit in accordance with the ISA (NZ) for LCE, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Understand internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing

[75] The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction.

[76] Throughout this letter, references to "you," "we," "us," "management," "those charged with governance" and "auditor" would be used or amended as appropriate in the circumstances.

concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by [management and those charged with governance].
- Conclude on the appropriateness of [those charged with governance's] use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the ISA (NZ) for LCE.

[*The responsibilities of those charged with governance and identification of the applicable financial reporting framework]*[77]

Our audit will be conducted on the basis that [those charged with governance][78] acknowledge and understand that they have responsibility on behalf of the entity:

- For the preparation [and fair presentation] of the financial statements in accordance with [applicable financial reporting framework];[79]
- For such internal control as [they] determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- To provide us with:
  - (i) Access to all information of which [management and those charged with governance] is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - (ii) Additional information that we may request from [management and those charged with governance] for the purpose of the audit; and
  - (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from [those charged with governance], written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your staff during our audit.

---

[77] For purposes of this illustrative engagement letter, it is assumed that the auditor has not determined that the law or regulation prescribes those responsibilities in appropriate terms; the descriptions in paragraph 4.2.1(b) of this standard are therefore used)

[78] Use terminology as appropriate in the circumstances.

[79] Or, if appropriate, "For the preparation of financial statements that give a true and fair view in accordance with [applicable financial reporting framework]"

[*Other relevant information*]

[*Insert other information, such as fee arrangements, billings and other specific terms, as appropriate*.]

[*Reporting*]

[*Insert appropriate reference to the expected form and content of the auditor's report including, if applicable, the reporting on other information.*]

The form and content of our report may need to be amended in the light of our audit findings.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company by

(signed)

....
Name and Title

Date

[NZ] APPENDIX 2A

Illustrative Engagement Letter including Service Performance Information

The following is an illustrative engagement letter for an audit of a [financial report/ performance report], which comprise financial statements and service performance information, prepared in accordance with [applicable financial reporting framework]. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in the ISA (NZ) for LCE. It will need to be varied according to individual requirements and circumstances. It is drafted to refer to the audit of a [financial report/ performance report] for a single reporting period and would require adaptation if intended or expected to apply to recurring audits (see paragraph 4.4.2). It may be appropriate to seek legal advice that any proposed letter is suitable.

***

To the appropriate representative of those charged with governance of ABC Charity:[80]

[*The objective and scope of the audit*]

You[81] have requested that we audit the [financial report/ performance report] of [ABC Charity (the "entity")], which comprise the financial statements, and the service performance information [, and entity information]. The complete set of financial statements comprise the statement of financial position as at December 31, 20XX, [the statement of comprehensive revenue and expense, statement of financial performance, statement of changes in net assets/equity], and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

The objectives of our audit are to obtain reasonable assurance about whether the [financial report/ performance report] as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities (ISA (NZ) for LCE) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this [financial report/ performance report].

[*The responsibilities of the auditor*]

We will conduct our audit in accordance with the ISA (NZ) for LCE. The ISA (NZ) for LCE requires that we comply with ethical requirements. As part of an audit in accordance with the ISA (NZ) for LCE, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the [financial report/ performance report], whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

[80] The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction.

[81] Throughout this letter, references to "you," "we," "us," "management," "those charged with governance" and "auditor" would be used or amended as appropriate in the circumstances.

- Understand internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the [financial report/ performance report] that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by [management and those charged with governance].
- Obtain an understanding of the process applied by the entity to select its elements/aspects of service performance, performance measures and/or descriptions and the measurement bases or evaluation methods.
- Evaluate whether the selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods present an appropriate and meaningful assessment of the entity's service performance in accordance with [the applicable financial reporting framework].
- Evaluate whether the service performance information is prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.
- Conclude on the appropriateness of [those charged with governance's] use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the [financial report/ performance report] or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the [financial report/ performance report], including the disclosures, and whether the [financial report/ performance report] represents the underlying transactions and events in a manner that achieves fair presentation.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the ISA (NZ) for LCE.

[*The responsibilities of those charged with governance and identification of the applicable financial reporting framework]*[82]

Our audit will be conducted on the basis that [those charged with governance][83] acknowledge and understand that they have responsibility on behalf of the entity:

- For the preparation [and fair presentation] of the [financial report/ performance report] in accordance with [applicable financial reporting framework];[84]
- For the selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance

[82] For purposes of this illustrative engagement letter, it is assumed that the auditor has not determined that the law or regulation prescribes those responsibilities in appropriate terms; the descriptions in paragraph 4.2.1(b) of this standard are therefore used)

[83] Use terminology as appropriate in the circumstances.

[84] Or, if appropriate, "For the preparation of a [financial report/ performance report] that give a true and fair view in accordance with [applicable financial reporting framework]"

information that is appropriate and meaningful in accordance with the applicable financial reporting framework;

- For the preparation and fair presentation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework;
- For the overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework;
- For such internal control as [they] determine is necessary to enable the preparation of a [financial report/ performance report] that are free from material misstatement, whether due to fraud or error; and
- To provide us with:
  - (i) Access to all information of which [management and those charged with governance] is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - (ii) Additional information that we may request from [management and those charged with governance] for the purpose of the audit; and
  - (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from [those charged with governance], written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your staff during our audit.

[*Other relevant information*]

[*Insert other information, such as fee arrangements, billings and other specific terms, as appropriate*.]

[*Reporting*]

[*Insert appropriate reference to the expected form and content of the auditor's report including, if applicable, the reporting on other information.*]

The form and content of our report may need to be amended in the light of our audit findings.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the [financial report/ performance report] including our respective responsibilities.

XYZ & Co.

Acknowledged and agreed on behalf of ABC Charity by

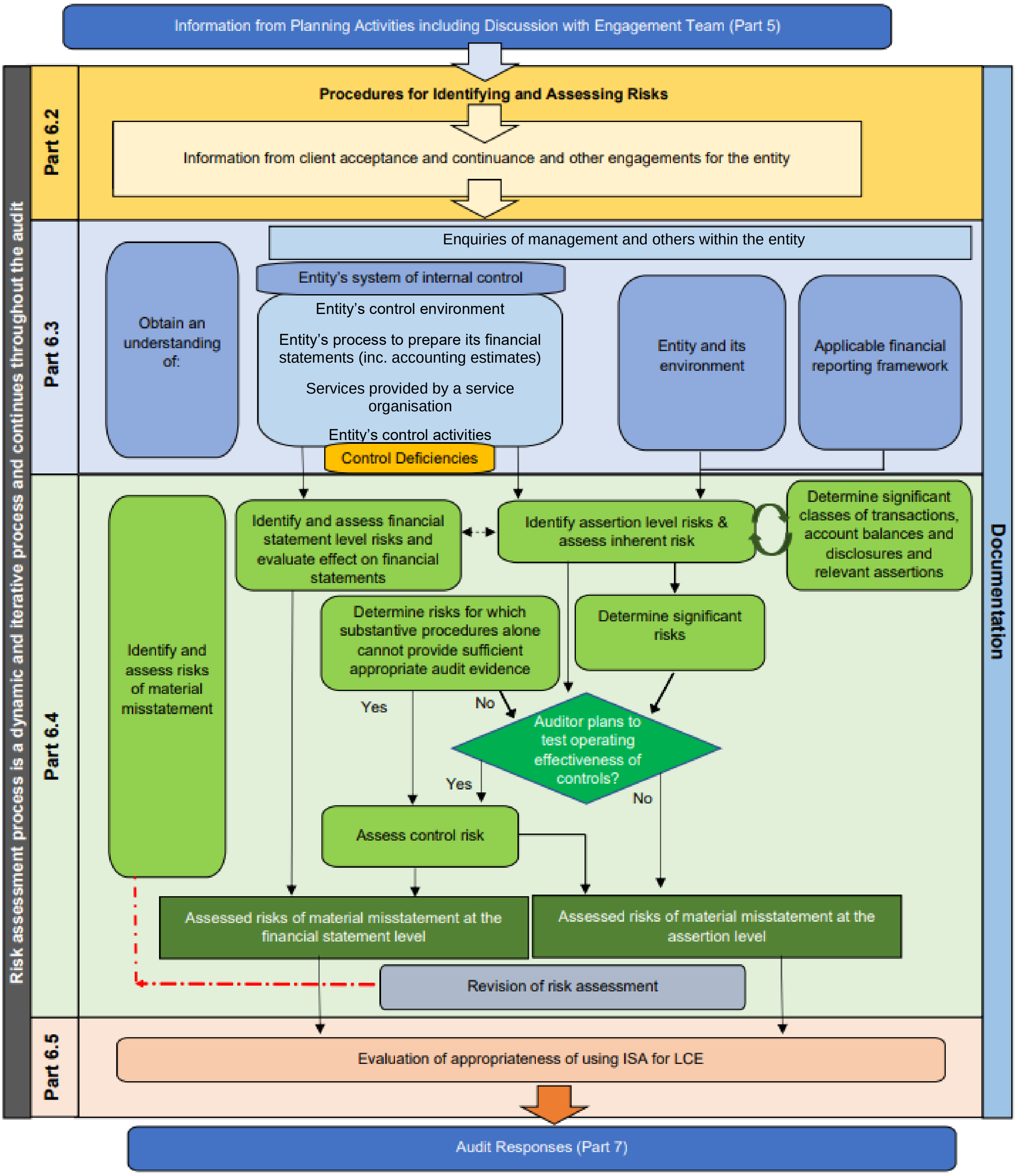
(signed)

....
Name and Title

Date

APPENDIX 3

Identifying and Assessing the Risks of Material Misstatement (Part 6)



APPENDIX 4

Fraud Risk Factors

The fraud risk factors set out below are examples of factors that may be faced by auditors during an audit of less complex entities. Examples are separately presented for the two types of fraud – fraudulent financial reporting and misappropriation of assets.

The risk factors are further classified based on the three conditions generally present when material misstatements due to fraud occur: (a) incentives/pressures, (b) opportunities, and (c) attitudes/rationalisations. Although the risk factors cover a broad range of situations, they are only examples and, accordingly, the auditor may identify additional or different risk factors. Not all of these examples are relevant in all circumstances, and some may be of greater or lesser significance in entities of different sizes or with different ownership characteristics or circumstances. Also, the order of the examples risk factors provided is not intended to reflect their relative importance or frequency of occurrence.

Risk Factors Relating to Misstatements Arising from Fraudulent Financial Reporting

The following are examples of risk factors relating to misstatements arising from fraudulent financial reporting.

Incentives/Pressures

Financial stability or profitability is threatened by economic, industry, or entity operating conditions, such as (or as indicated by):

- Significant declines in customer demand or increasing business failures in the industry or overall economy.
- High degree of competition or market saturation, accompanied by declining margins.
- Operating losses causing the threat of bankruptcy or foreclosure.
- Recurring negative cash flows from operations or an inability to generate cash flows from operations.

Pressure exists for management to meet the requirements or expectations of third parties due to:

- Pressure to renew, or obtain additional, financing, or to meet debt repayment or debt covenant requirements and therefore to overstate performance or position in order to demonstrate profitability and long-term viability.
- Pressure to understate revenue in order to reduce tax liabilities.

Opportunities

Opportunities to engage in fraudulent financial reporting that can arise from the following:

- Related-party transactions not in the ordinary course of business or with related entities not audited or audited by another firm.
- The domination of management by a single person or small group (in a non owner-managed business) without compensating controls.
- The system of internal control is deficient as a result of the following:
    - Limited segregation of duties or anti-fraud controls (e.g., fraud hotlines)

- o Inadequate involvement of management in operations or other activities that may help management to prevent or detect misstatements in accounting information, or to identify controls that are not operating as intended.
- o Accounting and information systems that are not effective, including situations involving significant deficiencies in internal control.

Attitudes/Rationalisations

- Poor communication, implementation, support, or enforcement of the entity's values or ethical standards by management, or the communication of inappropriate values or ethical standards.
- The owner-manager makes no distinction between personal and business transactions.
- Dispute between shareholders in a closely held entity.
- Recurring attempts by management or owners to justify marginal or inappropriate accounting on the basis of materiality or to help the company survive.
- The relationship between management and the current or predecessor auditor is strained by disputes, unreasonable demands on the auditor, restrictions on access to people or information, or domineering management behaviour.

Risk Factors Arising from Misstatements Arising from Misappropriation of Assets

Some of the risk factors related to misstatements arising from fraudulent financial reporting may also be present when misstatements arising from misappropriation of assets occur, which often is a common fraud in less complex entities. For example, deficiencies in internal control may be present when misstatements due to either fraudulent financial reporting or misappropriation of assets exist. The following are examples of risk factors related to misstatements arising from misappropriation of assets.

Incentives/Pressures

- Personal financial obligations may create pressure on management or employees with access to cash or other assets susceptible to theft to misappropriate those assets.
- Adverse relationships between the entity and employees with access to cash or other assets susceptible to theft may motivate those employees to misappropriate those assets. For example:
- Known or anticipated future employee layoffs.
- Recent or anticipated changes to employee compensation or benefit plans.
- Promotions, compensation, or other rewards inconsistent with expectations.

Opportunities

Certain characteristics or circumstances may increase the susceptibility of assets to misappropriation:

- Large amounts of cash on hand or processed.
- Inventory items that are small in size, of high value, or in high demand.
- Fixed assets which are small in size, marketable, or lacking observable identification of ownership.

Inadequate internal control over assets may increase the susceptibility of misappropriation of those assets. For example, misappropriation of assets may occur because there is the following:

- Inadequate segregation of duties or independent checks.
- Inadequate system of authorisation and approval of transactions (for example, in purchasing).

- Inadequate record keeping or physical safeguards over cash, inventory, or fixed assets.
- Lack of mandatory vacations for employees performing key control functions.
- Inadequate management understanding of information technology.

Attitudes/Rationalisations

- Disregard for the need for monitoring or reducing risks related to misappropriations of assets.
- Disregard for internal control by overriding existing controls or failing to take appropriate remedial action on known misappropriations, including petty theft.
- Behaviour indicating displeasure or dissatisfaction with the entity or its treatment of the employee.

APPENDIX 5

Assertions

In identifying and assessing the risks of material misstatement, the auditor of less complex entities (LCEs) may use the categories of assertions as described below or may express them differently provided all aspects described below have been covered. The auditor may choose to combine the assertions about classes of transactions and events, and related disclosures, with the assertions about account balances, and related disclosures.

An auditor of an LCE may use the following assertions in considering the different types of potential misstatements that may occur. The assertions may fall into the following categories:

Assertions About Classes of Transactions and Events, and Related Disclosures, For the Period Under Audit

- Occurrence—transactions and events that have been recorded or disclosed have occurred, and such transactions and events pertain to the entity.
- Completeness—all transactions and events that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.
- Accuracy—amounts and other data relating to recorded transactions and events have been recorded appropriately, and related disclosures have been appropriately measured and described.
- Cutoff—transactions and events have been recorded in the correct accounting period.
- Classification—transactions and events have been recorded in the proper accounts.
- Presentation—transactions and events are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.

Assertions About Account Balances, and Related Disclosures, At the Period End

- Existence—assets, liabilities and equity interests exist.
- Rights and obligations—the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.
- Completeness—all assets, liabilities and equity interests that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.
- Accuracy, valuation and allocation—assets, liabilities and equity interests have been included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments have been appropriately recorded, and related disclosures have been appropriately measured and described.
- Classification—assets, liabilities and equity interests have been recorded in the proper accounts.
- Presentation—assets, liabilities and equity interests are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.

The assertions described above, adapted as appropriate, may also be used by the auditor in considering the different types of misstatements that may occur in disclosures not directly related to recorded classes of transactions, events or account balances.

[NZ] Assertions about Service Performance Information (when applying Part 11)

Assertions used by the auditor in considering the different types of potential misstatements of service performance information that may occur may fall into the following categories:

- Occurrence—service performance that has been reported has occurred.
- Attributable to the entity—the service performance reported by the entity includes only service performance that the entity has evidence to support its involvement with either directly or in conjunction with other entities with common goals.
- Completeness—all important service performance that should have been reported has been included in the service performance information.
- Accuracy—service performance has been reported, measured and described appropriately and is not inconsistent with the financial statement information.
- Cut-off—service performance has been reported in the correct period.
- Presentation—service performance is appropriately aggregated or disaggregated, clearly displayed and not misleading, and related disclosures are relevant and understandable.

The auditor may use the assertions as described above or may express them differently provided all aspects described above have been covered. For example, the auditor may choose to combine the assertions about occurrence and attribution or based on the nature of the service performance information reported consider existence may be more appropriate than occurrence.

APPENDIX 6

Examples of Factors Influencing Sample Size for Tests of Controls and Test of Details

The following are factors that the auditor may consider when determining the sample size for tests of controls. These factors, which need to be considered together, assume the auditor does not modify the nature or timing of tests of controls or otherwise modify the approach to substantive procedures in response to assessed risks.

Factor Influencing Sample Size for Tests of Controls	**Effect on sample size**
An increase in the extent to which the auditor's risk assessment takes into account plans to test the operating of effectiveness of controls	Increase
An increase in the tolerable rate of deviation	Decrease
An increase in the expected rate of deviation of the population to be tested	Increase
An increase in the auditor's desired level of assurance that the tolerable rate of deviation is not exceeded by the actual rate of deviation in the population	Increase
An increase in the number of sampling units in the population	Negligible effect

The following are factors that the auditor may consider when determining the sample size for tests of details. These factors, which need to be considered together, assume the auditor does not modify the approach to tests of controls or otherwise modify the nature or timing of substantive procedures in response to the assessed risks.

Factor Influencing Sample Size for Tests of Details	**Effect on sample size**
An increase in the auditor's assessment of the risk of material misstatement	Increase
An increase in the use of other substantive procedures directed at the same assertion	Decrease
An increase in the auditor's desired level of assurance that tolerable misstatement is not exceeded by actual misstatement in the population	Increase
An increase in tolerable misstatement	Decrease
An increase in the amount of misstatement the auditor expects to find in the population	Increase
Stratification of the population when appropriate	Decrease
The number of sampling units in the population	Negligible effect

[NZ] APPENDIX 7

Illustrative Representation Letter

The following illustrative letter includes written representations that are required by Part 8.6 of the ISA (NZ) for LCE. It is assumed in this illustration that the requirement to obtain a written representation relating to going concern is not relevant; and that there are no exceptions to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.

(Entity Letterhead)

(To Auditor) (Date)

This representation letter is provided in connection with your audit of the financial statements of [ABC Company (the "entity")], for the year ended December 31, 20XX for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, (or *give a true and fair view*) in accordance with [the applicable financial reporting framework] issued by the New Zealand Accounting Standards Board.

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

Financial Statements

- We have fulfilled our responsibilities on behalf of the entity, as set out in the terms of the audit engagement dated [insert date], for the preparation of the financial statements in accordance with [applicable financial reporting framework]; in particular the financial statements are fairly presented (or give a true and fair view) in accordance therewith.
- The methods, the data, and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of [applicable financial reporting framework].
- All events subsequent to the date of the financial statements and for which [applicable financial reporting framework] require adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter.
- Any actual or possible litigation and claims whose effects should be considered when preparing the financial statements are accounted for and disclosed in accordance with the applicable financial reporting framework.
- [Any other matters that the auditor may consider appropriate.]

Information Provided

- We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and

  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with law or regulation whose effects should be considered when preparing financial statements.
- We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- [Any other matters that the auditor may consider necessary.]

Signed on behalf of [Those Charged with Governance] of [ABC Company] by:

(signed)	(signed)
....	....
Name and Title	Name and Title

[NZ] APPENDIX 7A

Illustrative Representation Letter including Service Performance Information[85]

The following illustrative letter includes written representations that are required by Part 11.11. and Part 8.6. of the ISA (NZ) for LCE. It is assumed in this illustration that the applicable financial reporting framework is a fair presentation framework, that the requirement to obtain a written representation relating to going concern is not relevant; and that there are no exceptions to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.

(Entity Letterhead)

(To Auditor) (Date)

This representation letter is provided in connection with your audit of the [financial report/ performance report] of [ABC Entity (the "entity")], for the year ended December 31, 20XX which comprise the financial statements, and the service performance information [, and entity information], for the purpose of expressing an opinion as to whether the [financial report/ performance report] presents fairly, in all material respects, (or *gives a true and fair view of*):

- [the entity information as at December 31, 20XX; and]
- the financial position of the entity as at December 31, 20XX, and its financial performance, and its cash flows for the year then ended; and
- the service performance for the year ended December 31, 20XX in that the service performance information is appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods

in accordance with [the applicable financial reporting framework (e.g.: PBE Standards)] issued by the New Zealand Accounting Standards Board.

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

[Financial Report/ Performance Report]

- We have fulfilled our responsibilities on behalf of the entity, as set out in the terms of the audit engagement dated [insert date], for:
    - The preparation of the [financial report/ performance report] in accordance with the [applicable financial reporting framework]; in particular the [financial report/ performance report] is fairly presented (or give a true and fair view) in accordance therewith.
    - The selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful in accordance with the [applicable financial reporting framework];
    - The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods in accordance with the [applicable financial reporting framework]; and
    - The overall presentation structure and content of the service performance information in accordance with the [applicable financial reporting framework].

[85] May also be referred to as the Statement of Service Performance.

- The methods, the data, and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of [applicable financial reporting framework].
- All events subsequent to the date of the financial statements and for which [applicable financial reporting framework] require adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the [financial report/ performance report] as a whole. A list of the uncorrected misstatements is attached to the representation letter.
- Any actual or possible litigation and claims whose effects should be considered when preparing the financial statements are accounted for and disclosed in accordance with the applicable financial reporting framework.
- [Any other matters that the auditor may consider appropriate.]

Information Provided

- We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the [financial report/ performance report], such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the [financial report/ performance report].
- We have disclosed to you the results of our assessment of the risk that the [financial report/ performance report] may be materially misstated as a result of fraud.
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the [financial report/ performance report].
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's [financial report/ performance report] communicated by employees, former employees, analysts, regulators or others.
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with law or regulation whose effects should be considered when preparing a [financial report/ performance report].
- We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the [financial report/ performance report].
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

- [Any other matters that the auditor may consider necessary.]

Signed on behalf of [Those Charged with Governance] of [ABC Charity] by:

(signed)	(signed)
....	....
Name and Title	Name and Title

CONFORMING AMENDMENTS ARISING FROM THE ISA (NZ) FOR LCE

Note: The following are conforming amendments to other assurance standards as a result of the approval of the ISA (NZ) for LCE. These amendments will become effective at the same time as the ISA (NZ) for LCE and are shown with marked changes from the latest approved versions of the assurance standards that are amended. The footnote numbers within these amendments do not align with the assurance standards that are amended, and reference should be made to those assurance standards.

XRB Au1 APPLICATION OF AUDITING AND ASSURANCE STANDARDS

APPENDIX 2B

INTERNATIONAL STANDARDS ON AUDITING (NEW ZEALAND) FOR AUDITS OF FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES

This appendix is an integral part of the Standard

This appendix lists the standard to be applied in conducting an audit of historical financial information of a Less Complex Entity,

The XRB permits the voluntary application of the ISA (NZ) for LCE in specific circumstances. This audit practitioners may voluntarily adopt this standard:

(a) On or after the mandatory date, or early adoption accounting period, as defined in the Commencement and Application section of the ISA (NZ) for LCE standard; and

(b) The auditor determines that the audit engagement can be undertaken using the ISA (NZ) for LCE in accordance with Part A of the ISA (NZ) for LCE.

ISA (NZ) for LCE International Standards on Auditing (New Zealand) for audits of financial statements of less complex entities

…

APPENDIX 6

[ISA (NZ) for LCE to be added to the diagram: Overview of the Auditing and Assurance Standards of the XRB, and the Engagements Governed by the Standards.]

…

PES 1, INTERNATIONAL CODE OF ETHICS FOR ASSURANCE PRACTITIONERS (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS) (NEW ZEALAND)

…

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

…

400.4 Professional and Ethical Standard 3[86] requires a firm to design, implement and operate a system of quality management for audits or reviews of financial statements performed by the firm. As part of this system of quality management, Professional and Ethical Standard 3 requires the firm to establish quality objectives that address the fulfilment of responsibilities in accordance with relevant ethical requirements including those related to independence. Under Professional and Ethical Standard 3, relevant ethical requirements are those related to the firm, its personnel and, when applicable, others subject to independence the requirements to which the firm and the firm's engagements are subject. International Standards on Auditing (New Zealand), <u>International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA (NZ) for LCE),</u> International Standards on Review Engagements (New Zealand) and New Zealand Standards on Review Engagements establish responsibilities for engagement partners and engagement teams at the level of the engagement for audits and reviews, respectively. The allocation of responsibilities within a firm will depend on its size, structure and organisation. Many of the provisions of this Part do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to "firm" for ease of reference. A firm assigns operational responsibility for compliance with independence requirements to an individual(s) in accordance with Professional and Ethical Standard 3. In addition, an individual assurance practitioner remains responsible for compliance with any provisions that apply to that assurance practitioner's activities, interests or relationships.

…

SECTION 900

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

…

900.3 Professional and Ethical Standard 3 requires a firm to design, implement and operate a system of quality management for assurance engagements performed by the firm. As part of this system of quality management, Professional and Ethical Standard 3 requires the firm to establish quality objectives that address the fulfilment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Under Professional and Ethical Standard 3, relevant ethical requirements are those related to the firm, its personnel and, when applicable,

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

others subject to the independence requirements to which the firm and the firm's engagements are subject. In addition, International Standards on Assurance Engagements (New Zealand), Standards on Assurance Engagements, International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA (NZ) for LCE) and International Standards on Auditing (New Zealand) establish responsibilities for engagement partners and engagement teams at the level of the engagement. The allocation of responsibilities within a firm will depend on its size, structure and organisation. Many of the provisions of Part 4B do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to "firm" for ease of reference. A firm assigns operational responsibility for compliance with independence requirements to an individual(s) in accordance with Professional and Ethical Standard 3. Additionally, an individual assurance practitioner remains responsible for compliance with any provisions that apply to that assurance practitioner's activities, interests or relationships.

…

GLOSSARY

…

Assurance engagement

An engagement in which an assurance practitioner aims to obtain sufficient appropriate evidence in or to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria).

(ISAE (NZ) 3000 (Revised) describes the elements and objectives of an assurance engagement conducted under that Standard and Explanatory Guide (EG) Au1 *Overview of Auditing and Assurance Standards* provides a general description of assurance engagements to which International Standards on Auditing (New Zealand) (ISAs (NZ)), International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA (NZ) for LCE), International Standards on Review Engagements (New Zealand) (ISREs (NZ)), New Zealand Standard on Review Engagements (NZ SRE), International Standards on Assurance Engagements (New Zealand) (ISAEs (NZ)), and Standards on Assurance Engagements (SAEs) apply.)

In Part 4B, the term 'assurance engagement' refers to assurance engagements that are not audit or review engagements.

Audit engagement

A reasonable assurance engagement in which an assurance practitioner expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with International Standards on Auditing (New Zealand) or International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA (NZ) for LCE). This includes a Statutory Audit, which is an audit required by legislation or other regulation.

PES 3, QUALITY MANAGEMENT FOR FIRMS THAT PERFORM AUDITS OR REVIEWS OF FINANCIAL STATEMENTS, OR OTHER ASSURANCE OR RELATED SERVICES ENGAGEMENTS

…

Application and Other Explanatory Material

Scope of this Professional and Ethical Standard (Ref: Para. 3–4)

A1. Other pronouncements of the NZAuASB, including the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA (NZ) for LCE), ISRE (NZ) 2400[87] and ISAE (NZ) 3000 (Revised),[88] also establish requirements for the engagement partner for the management of quality at the engagement level.

…

Authority of this Professional and Ethical Standard (Ref: Para. 12)

…

A8. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:

- Explain more precisely what a requirement means or is intended to cover; and
- Include examples that illustrate how the requirements might be applied.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this PES. In certain instances, references are included to individual ISAs. If the audit engagement is conducted in accordance with the ISA (NZ) for LCE, the ISA (NZ) for LCE may also address related matters in the context of an audit of the financial statements of a less complex entity but these are not referenced in this PES. Where appropriate, additional considerations specific to public sector audit organisations are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in this PES. They do not, however, limit or reduce the responsibility of the firm to apply and comply with the requirements in this PES.

…

Engagement Performance

…

Engagement Documentation (Ref: Para. 31(f))

A83. Law, regulation or professional standards may prescribe the time limits by which the assembly of final engagement files for specific types of engagements are to be completed. Where no such time limits are prescribed in law or regulation, the time limit may be determined by the firm. In the case of engagements conducted under the ISAs (NZ), the ISA (NZ) for LCE or ISAEs (NZ) or SAEs, an

[87] International Standard on Review Engagements (ISRE) (NZ) 2400, *Engagements to Review Historical Financial Statements*

[88] International Standard on Assurance Engagements (ISAE) (NZ) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the engagement report.

…

A85. Law, regulation or professional standards may prescribe the retention periods for engagement documentation. If the retention periods are not prescribed, the firm may consider the nature of the engagements performed by the firm and the firm's circumstances, including whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. In the case of engagements conducted under the ISAs, the ISA (NZ) for LCE or ISAEs or SAEs, the retention period is ordinarily no shorter than five years from the date of the engagement report, or, if later, the date of the auditor's report on the group financial statements, when applicable.

…

PES 4, ENGAGEMENT QUALITY REVIEWS

Introduction

…

Authority of this Professional and Ethical Standard

10. This PES contains the objective for the firm in following this PES, and requirements designed to enable the firm and the engagement quality reviewer to meet that stated objective. In addition, this PES contains related guidance in the form of application and other explanatory material and introductory material that provides context relevant to a proper understanding of this PES, and definitions. PES 3[89] explains the terms objective, requirements, application and other explanatory material, introductory material, and definitions. (Ref: Para. A0A)

…

Application and Other Explanatory Material

Authority of this Professional and Ethical Standard (Ref: Para. 10)

A0A. The application and other explanatory material may also provide background information on matters addressed in this PES. In certain instances, references are included to individual International Standards on Auditing New Zealand (ISAs (NZ)). If the audit engagement is conducted in accordance with the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities (ISA (NZ) for LCE), the ISA (NZ) for LCE may also address related matters in the context of an audit of the financial statements of a less complex entity but these are not referenced in this PES.

…

Performance of the Engagement Quality Review (Ref: Para. 24–27)

Engagement Partner Responsibilities in Relation to the Engagement Quality Review (Ref: Para. 24(b))

89 PES 3, paragraph 14

A25. ISA 220 (NZ) (Revised)[90] establishes the requirements for the engagement partner in audit engagements for which an engagement quality review is required, including:

- Determining that an engagement quality reviewer has been appointed;
- Cooperating with the engagement quality reviewer and informing other members of the engagement team of their responsibility to do so;
- Discussing significant matters and significant judgements arising during the audit engagement, including those identified during the engagement quality review, with the engagement quality reviewer; and
- Not dating the auditor's report until the completion of the engagement quality review.

…

ISAE (NZ) 3000 (REVISED), ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OR REVIEWS OF HISTORICAL FINANCIAL INFORMATION

Introduction

1. This International Standard on Assurance Engagements (New Zealand) (ISAE (NZ)) deals with assurance engagements other than audits or reviews of historical financial information. ~~, which~~ Audits of historical financial information are dealt with in International Standards on Auditing (New Zealand) (ISAs (NZ)) and the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities (ISA (NZ) for LCE), and reviews of historical financial information are dealt with in International Standards on Review Engagements (New Zealand) (ISREs (NZ))~~, respectively~~. (Ref: Para. A21–A22)

…

ISRE (NZ) 2400, REVIEW OF HISTORICAL FINANCIAL STATEMENTS PERFORMED BY AN ASSURANCE PRACTITIONER WHO IS NOT THE AUDITOR OF THE ENTITY

…

Requirements

…

The Assurance Practitioner's Report

86. The assurance practitioner's report for the review engagement shall be in writing, and shall contain the following elements: (Ref: Para. A122–A125, A146, A148)

    …

    (g) A description of a review of financial statements and its limitations, and the following statements: (Ref: Para. A132)

    (i) A review engagement under this ISRE (NZ) is a limited assurance engagement;

[90] ~~International Standard on Auditing (~~ISA (NZ)~~)~~ 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph 36

(ii) The assurance practitioner performs procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained; and

(iii) The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with auditing standards issued by the External Reporting Board ~~International Standards on Auditing (New Zealand) (ISAs (NZ))~~ and, accordingly, the practitioner does not express an audit opinion on the financial statements;

…

Appendix 2

…

Illustration 1

…

Assurance Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements. We conducted our review in accordance with International Standard on Review Engagements (New Zealand) (ISRE (NZ)) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is not the Auditor of the Entity*. ISRE (NZ) 2400 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE (NZ) 2400 is a limited assurance engagement. The assurance practitioner performs procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with auditing standards issued by the External Reporting Board ~~International Standards on Auditing (New Zealand)~~. Accordingly, we do not express an audit opinion on these financial statements.

…

Illustration 2

…

Assurance Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements. We conducted our review in accordance with International Standard on Review Engagements (New Zealand) (ISRE (NZ)) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is not the Auditor of the Entity*. ISRE (NZ) 2400 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE (NZ) 2400 is a limited assurance engagement. The assurance practitioner performs procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with auditing standards issued by the External Reporting Board ~~International Standards on Auditing (New Zealand)~~. Accordingly, we do not express an audit opinion on these financial statements.

…

Illustration 3

…

Assurance Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements. We conducted our review in accordance with International Standard on Review Engagements (New Zealand) (ISRE (NZ)) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is not the Auditor of the Entity*. ISRE (NZ) 2400 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE (NZ) 2400 is a limited assurance engagement. The assurance practitioner performs procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with auditing standards issued by the External Reporting Board ~~International Standards on Auditing (New Zealand)~~. Accordingly, we do not express an audit opinion on these financial statements.

…

Illustration 4

…

Assurance Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying consolidated financial statements. We conducted our review in accordance with International Standard on Review Engagements (New Zealand) (ISRE (NZ)) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is not the Auditor of the Entity*. ISRE (NZ) 2400 requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of consolidated financial statements in accordance with ISRE (NZ) 2400 is a limited assurance engagement. The assurance practitioner performs procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with auditing standards issued by the External Reporting Board ~~International Standards on Auditing (New Zealand)~~. Accordingly, we do not express an audit opinion on these consolidated financial statements.

…

Illustration 6

…

Assurance Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements. We conducted our review in accordance with International Standard on Review Engagements (New Zealand) (ISRE (NZ)) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is not the Auditor of the Entity*. ISRE (NZ) 2400 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE (NZ) 2400 is a limited assurance engagement. The assurance practitioner performs procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with auditing standards issued by the External Reporting Board ~~International Standards on Auditing (New Zealand)~~. Accordingly, we do not express an audit opinion on these financial statements.

…

Illustration 7

…

Assurance Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statement. We conducted our review in accordance with International Standard on Review Engagements (New Zealand) (ISRE (NZ)) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is not the Auditor of the Entity*. ISRE (NZ) 2400 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statement is not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2400 (Revised) is a limited assurance engagement. The assurance practitioner performs procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with auditing standards issued by the External Reporting Board ~~International Standards on Auditing (New Zealand)~~. Accordingly, we do not express an audit opinion on this financial statement.

…

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING FOR AUDITS OF FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES

This conformity statement accompanies but is not part of the ISA (NZ) for LCE.

Conformity with International Standards on Auditing for Audits of Financial Statements of Less Complex Entities

This International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities (ISA (NZ) for LCE) conforms to International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE), issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been amended or added to this ISA (NZ) for LCE (and do not appear in the text of the equivalent ISA for LCE), are identified with the prefix “NZ”.

This ISA (NZ) for LCE incorporates terminology and definitions used in New Zealand.

Part 11 has been added to this ISA (NZ) for LCE to enable the audit of service performance information. It does not appear in ISA for LCE.

Compliance with this ISA (NZ) for LCE enables compliance with ISA for LCE.

Comparison with Australian Auditing Standards

There is no equivalent Australian Auditing Standard, issued by the Australian Auditing and Assurance Standards Board (AUASB).

XRB Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Review of Service Performance Information

NZ SRE 1

XX 2024

NEW ZEALAND STANDARD ON REVIEW ENGAGEMENTS 1

REVIEW OF SERVICE PERFORMANCE INFORMATION

CONTENTS

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019.[1]

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

0.2 The accounting periods in relation to which this standard commences to apply are:

(a) For an early adopter, those accounting periods following, and including, the **early adoption accounting period**:

(b) For any other assurance practitioner, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

0.3 In paragraph 0.2:
early adopter means an assurance practitioner that applies this standard for an early adoption accounting period.

early adoption accounting period means the accounting period:

(a) that begins before the mandatory date but has not ended or does not end before this standard takes effect (and to avoid doubt, that period may have begun before this standard takes effect); and

(b) for which the early adopter

(i) first applies this standard, and

(ii) discloses in its assurance practitioner's review report for that accounting period that this standard has been applied for that period.

0.4 **mandatory date** means [XX November] 2025.

Introduction

1. Service performance information is information about what the entity has done and achieved during the reporting period in working towards its broader aims and objectives, together with supporting contextual information, when applicable, about why an entity exists, what it intends to achieve and how it goes about this, prepared in accordance with the applicable financial reporting framework.

2. To obtain limited assurance over service performance information requires a different approach than may be used for the financial information. This NZ SRE emphasises the need to understand the entity and use that understanding to discuss with management whether the entity's approach provides an appropriate basis for the service performance information and is expected to result in appropriate and meaningful reporting, prior to obtaining evidence whether anything has come to the assurance practitioner's attention that the service performance information does not fairly reflect the actual service performance. (Ref: Para. A1-A2)

1 The standard was published on XX XXXXX.

Scope of this NZ SRE

3. This New Zealand Standard on Review Engagements (NZ SRE) deals with the assurance practitioner's responsibilities with respect to service performance information when an assurance practitioner is engaged to perform a review of service performance information concurrently with a review of the financial statements.

4. This NZ SRE establishes requirements and provides guidance not addressed by International Standard on Review Engagements (New Zealand) (ISRE (NZ)) 2400[2] with respect to service performance information.

5. This standard together with ISRE (NZ) 2400 sets out the requirements to obtain limited assurance over service performance information.

6. This NZ SRE applies when the assurance practitioner is required by law or regulation or is otherwise engaged to review both the financial statements and the service performance information prepared in accordance with the applicable financial reporting framework. (Ref: Para. A3)

Objective

7. The objectives of the assurance practitioner are to:

   (a) obtain limited assurance, primarily by performing enquiry and~~,~~ analytical procedures, and, ~~as~~ if in their professional judgement the assurance practitioner considers necessary in the circumstances, other procedures, about whether anything has come to their attention that causes the assurance practitioner to believe that the service performance information does not present fairly, in all material respects, in that the service performance information is appropriate and meaningful, and prepared in accordance with the entity's measurement bases or evaluation methods in accordance with an applicable financial reporting framework; ~~individually or collectively is not free from material misstatement,~~ and

   (b) express a limited assurance conclusion in a written report.

Commented [LT1]: *Issues Paper: Appropriate and Meaningful*
Include the two step approach in the objective to be clearer and improve consistency of the need for the assurance practitioner to apply the two step approach to review engagements of SPI.

Definitions

8. For the purposes of this NZ SRE, the following terms have the meanings attributed below:

   (a) *Misstatement* – Misstatements can be intentional or unintentional, qualitative, or quantitative, and include omissions. Misstatements can arise from error or fraud and include:

      (i) An element/aspect of service performance or performance measure and/or description, or a measurement basis or evaluation method that is not appropriate and meaningful; or

      (ii) An element/aspect of service performance or performance measure and/or description that would be appropriate and meaningful is omitted; or

      (iii) Incorrectly measuring or evaluating the entity's service performance.

2 ISRE (NZ) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity*

(b) *Management's expert* – An individual or organisation possessing expertise in a field other than accounting or assurance, whose work in that field is used by the entity to assist the entity in preparing the service performance information.

(c) *Service organisation* – A third-party organisation (or segment of a third-party organisation) that provides services to user entities that are part of those entities' information systems relevant to reporting service performance information.

Requirements

General Requirements

Conducting an Engagement in Accordance with this NZ SRE

9. The assurance practitioner shall apply ISRE (NZ) 2400 and this NZ SRE when reviewing service performance information. (Ref: Para. A4)

10. The practitioner shall have an understanding of the entire NZ SRE, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.

11. The assurance practitioner shall not represent compliance with this NZ SRE unless the assurance practitioner has complied with the requirements of both this NZ SRE and ISRE (NZ) 2400 in relation to the review of service performance information.

Professional Judgement and Professional Scepticism

12. The assurance practitioner shall plan and perform the review of service performance information by exercising professional judgement and with an attitude of professional scepticism. (Ref: Para. A5)

Documentation

13. The assurance practitioner shall document the nature, timing and extent of the procedures performed to comply with this NZ SRE and ISRE (NZ) 2400.

14. The documentation shall include:

    (a) Significant professional judgements made in procedures performed, the evidence obtained, and conclusions reached. (Ref: Para. A6)

    (b) As far as possible, evidence of relevant relationships between the service performance information and the financial statements.

Agreeing the Terms of the Engagement

15. The terms of engagement shall include: (Ref: Para. A7-A10)

    (a) The responsibilities of the assurance practitioner with respect to the service performance information is to express a conclusion on the service performance information on whether anything has come to the assurance practitioner's attention that causes them to believe that the service performance information does not present fairly, in all material respects:

        - in that the service performance information is appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.

(b) The responsibilities of management or those charged with governance, as appropriate, including that they acknowledge and understand their responsibility on behalf of the entity for:

(i) The selection of elements/aspects of service performance, performance measures and/or descriptions, and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful, in accordance with the applicable financial reporting framework;

(ii) The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework;

(iii) The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework; and

(iv) Such internal control as management or those charged with governance, as appropriate, determine is necessary to enable the preparation of the service performance information that is free from material misstatement, whether due to fraud or error.

The Assurance Practitioner's Understanding

Understanding the Entity

16. The assurance practitioner shall obtain an understanding of: (Ref: Para. A11)

(a) Why the entity exists and what it intends to achieve i.e., its purpose or objective.

(b) What activities or services the entity performs.

(c) Who the entity aims to serve i.e., the entity's primary stakeholders and the primary users of the service performance report.

(d) What is considered important to those stakeholders and users and what they may use the service performance information for.

Understanding Laws and Regulations

17. The assurance practitioner shall obtain an understanding of: (Ref: Para. A12-A14)

(a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates, and laws and regulations that specify the form, content, preparation, publication, and review of service performance information; and

(b) How the entity is complying with that framework.

Understanding the Service Performance Information Reported

18. The assurance practitioner shall obtain an understanding of: (Ref: Para. A15-A18)

(a) The applicable financial reporting framework relevant to the service performance information.

(b) The process, including the rationale and logic the entity undertook to determine what elements/aspects of service performance, performance measures and/or descriptions, and measurement bases or evaluation methods and, if applicable, judgements to report.

(c) The process the entity undertook to identify the intended users of the service performance information and the level of engagement with the intended users.

(d) The measurement bases or evaluation methods used by the entity to assess the performance measures and/or descriptions and how these are made available to intended users.

(e) Changes to the elements/aspects of service performance, performance measures and/or descriptions, and the measurement bases or evaluation methods used to report its service performance compared to prior year, planned, forecast or prospective information.

(f) Where the entity intends to report its service performance information.

Understanding of Internal Control

19. The practitioner shall obtain an understanding of internal control, over the preparation of the service performance information. (Ref: Para. A19-A20)

Planning

20. The assurance practitioner shall develop a review plan with a single review approach to concurrently cover the service performance information and the financial statements. (Ref: Para. A21-A23)

21. In establishing the review plan, the assurance practitioner shall:

(a) Consider the factors that, in the assurance practitioner's professional judgement, are significant in directing the engagement team's efforts in respect of the review of service performance information.

(b) Determine the timing of when to consider whether the entity's service performance information is appropriate and meaningful.

(c) Determine whether expertise in a field other than accounting or assurance may be necessary regarding the service performance information. (Ref: Para. A57)

22. The assurance practitioner shall discuss with management or those charged with governance, as appropriate:

(a) What elements/aspects of service performance and performance measures and/or descriptions the entity intends to report as part of its service performance information.

(b) What measurement bases or evaluation methods the entity intends to use to measure or evaluate its performance.

23. Any concerns identified shall then be communicated to management or as appropriate, those charged with governance as soon as practicable.

Compliance With the Applicable Financial Reporting Framework

Appropriate and Meaningful

24. The assurance practitioner shall consider whether the service performance information: (Ref: Para. A6, A24-A27, A34)

(a) Fairly reflects the assurance practitioner's understanding of the entity's performance from all other review work performed on the engagement. (Ref: Para. A28)

(b) Is likely to meet the needs of the intended user to enable an informed assessment of the entity's service performance. (Ref: Para. A29-A30)

(c) Relates to an element/aspect of service performance that significantly contributes to the entity's core purpose, functions or objectives. (Ref: Para. A31)

(d) Is likely to have sufficient appropriate evidence to support the performance measure and/or description.

(e) Is capable of measurement or evaluation in a consistent manner from period to period. (Ref: Para. A32-A33)

(f) Is presented in a way that is easy to follow, concise, logical and aggregated where appropriate so that it will enable a user to identify the main points of the entity's service performance in that year.

Materiality

25. The assurance practitioner shall use the understanding gained in paragraphs 16-19 to determine the significant elements/aspects of service performance. (Ref: Para. A35-A36)

26. The assurance practitioner shall determine and document materiality considerations and/or materiality for service performance information to determine the: (Ref: Para. A6, A37-A40)

    (a) Nature, timing and extent of review procedures; and

    (b) Assurance practitioner's tolerance for misstatement in relation to material service performance measures and/or descriptions.

27. The assurance practitioner shall apply materiality when assessing: (Ref: Para. A41-A49)

    (a) The appropriateness and meaningfulness of the significant elements/aspects of service performance and related material performance measures and/or descriptions; and (Ref: Para. A41-A42)

    (b) Individual or collective misstatements within performance measures and/or descriptions, measurement bases or evaluation methods, that based on the assurance practitioner's judgement, are likely to influence the decisions of the intended users based on the information.

28. The assurance practitioner shall revise the judgements made in determining materiality for the service performance information if matters come to the assurance practitioner's attention during the review that would have caused the assurance practitioner to make a different materiality judgement.

29. The assurance practitioner shall consider individually or collectively, the impact on the service performance information, of all misstatements identified during the review, other than those that are clearly trivial, that are uncorrected by the entity. (Ref: Para. A44-A49)

Designing and Performing Procedures

30. The assurance practitioner shall use the understanding obtained in paragraphs 16-19, to identify areas in the service performance information where material misstatements are likely to arise and thereby provide a basis for designing procedures to address those areas. (Ref: Para. A50)

31. In obtaining sufficient appropriate evidence as the basis for a limited assurance conclusion on the service performance information, the assurance practitioner shall design and perform enquiry and analytical procedures and, ~~as~~ if in their professional judgement the assurance practitioner considers necessary in the circumstances, other procedures: (Ref: Para. A51-A53)

    (a) To address all material service performance information; and

    (b) To address areas where material misstatements are likely to arise.

32. In designing analytical procedures, the assurance practitioner shall consider whether the data relevant to service performance information from the entity's information system and records are adequate for the purpose of performing the analytical procedures. (Ref: Para. A54)

33. Where possible the assurance practitioner shall draw on relationships that exist between the service performance information and the financial statements. (Ref: Para. A55)

34. If the assurance practitioner becomes aware of a matter that causes the assurance practitioner to believe that the service performance information may be materially misstated, the assurance practitioner shall design and perform additional procedures to obtain further evidence until the assurance practitioner is able to:

    (a) Conclude that the matter is not likely to cause the service performance information to be materially misstated; or

    (b) Determine that the matter causes the service performance information to be materially misstated.

35. Where the service performance information relates to a group, obtain sufficient appropriate evidence regarding the service performance information of the components and the aggregation or consolidation process in order to express a conclusion on the group service performance information. (Ref: Para. A56)

Non-compliance with Laws and Regulations

36. The assurance practitioner shall comply with ISRE (NZ) 2400 for actual, suspected or alleged non-compliance with provisions of those laws and regulations that are generally recognised to have a direct effect on the reporting of material service performance information.

Use of Work Performed by Others

37. The assurance practitioner shall determine whether information to be used as evidence has been prepared using the work of a management's expert. If the assurance practitioner uses work performed by a management's expert in the course of performing the review, the assurance practitioner shall take appropriate steps to be satisfied that the work performed is adequate for the assurance practitioner's purpose. (Ref: Para. A57)

38. Where service performance information is derived from a service organisation, the

Commented [LT2]: *Issues Paper: Other Procedures*

To provide clarity of when 'other procedures' would be required.

assurance practitioner shall obtain an understanding of the nature and significance of the services provided by the service organisation to identify areas where material misstatements are likely to arise in the service performance information and thereby provide a basis for designing procedures to address those areas.

Reconciling the Service Performance Information to Underlying Records

39. The assurance practitioner shall obtain evidence that the service performance information agrees with, or reconciles to, the entity's underlying service performance records. (Ref: Para. A58)

Commented [LT3]: *Issues Paper: Reconciling to underlying accounting records*

New requirement that highlights an expected level of an entity's SPI reporting systems to improve quality of the systems.

Written Representations

~~39.~~40. In addition to the representations required by ISRE (NZ) 2400[3], the assurance practitioner shall request written representations from management or those charged with governance, as appropriate, that they have fulfilled their responsibility for: (Ref: Para. A58)

(a) The selection of elements/aspects of service performance, performance measures and/or descriptions, and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful, in accordance with the applicable financial reporting framework.

(b) The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.

(c) The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework.

(d) Such internal control as management or those charged with governance, as appropriate, determine is necessary to enable the preparation of the service performance information that is free from material misstatement, whether due to fraud or error.

Evaluating the Evidence Obtained

~~40.~~41. The assurance practitioner shall evaluate whether sufficient appropriate evidence has been obtained regarding service performance information, in accordance with ISRE (NZ) 2400[4]. (Ref: Para. A59)

Forming the Assurance Practitioner's Conclusion on the Service Performance Information

~~41.~~42. The assurance practitioner shall form a conclusion on whether anything has come to their attention that causes the assurance practitioner to believe that the service performance information does not present fairly[5], in all material respects:

- in that the service performance information is appropriate and meaningful and

[3] ISRE (NZ) 2400, paragraph 61-65

[4] ISRE (NZ) 2400, paragraph 66-68

[5] When the service performance information is prepared in accordance with a compliance framework, the assurance practitioner is not required to evaluate whether the service performance information achieves fair presentation.

prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.

~~42.~~43. In forming a conclusion on the service performance information, the assurance practitioner shall consider:

(a) Whether uncorrected misstatements are material, individually or collectively, as required by paragraph 29.

(b) The sufficiency and appropriateness of evidence obtained, as required by paragraph 40.

~~43.~~44. When the information is prepared in accordance with a fair presentation framework, in addition to the requirements of paragraph 42, the assurance practitioner shall also consider whether anything has come to the assurance practitioner's attention regarding:

(a) The appropriateness and meaningfulness of the service performance information presented by the entity.

(b) Whether the service performance information is not prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.

(c) The availability of the measurement bases or evaluation methods to intended users. (Ref: Para. A60-A61)

(d) Whether the overall presentation of the service performance information has been undermined by the inclusion of irrelevant information or information that obscures a proper understanding of the matters disclosed.

(e) Whether the overall presentation, structure and content of the service performance information represents the service performance of the entity in a manner that does not achieve fair presentation.

Form of the Conclusion

~~44.~~45. The assurance practitioner's conclusion on the service performance information, whether unmodified or modified, shall be expressed in the appropriate form in the context of the financial reporting framework applied to the service performance information.

Unmodified Conclusion

~~45.~~46. The assurance practitioner shall express an unmodified conclusion in the assurance practitioner's report on the service performance information when the assurance practitioner has obtained limited assurance to be able to conclude that nothing has come to their attention that causes the assurance practitioner to believe that the service performance information, does not present fairly, in all material respects, in that the service performance information is appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.

Modified Conclusion

~~46.~~47. The assurance practitioner shall modify the conclusion, with respect to the service performance information when:

(a) The assurance practitioner concludes that either individually or collectively the elements/aspects of service performance, performance measure and/or descriptions, or measurement bases or evaluation methods are materially misstated in that it is not appropriate and meaningful and as such is not in accordance with the applicable financial reporting framework, or

(b) The assurance practitioner concludes, based on the evidence obtained, that the service performance information is not individually or collectively free from material misstatement, or

(c) The assurance practitioner is unable to obtain sufficient appropriate evidence to conclude that the service performance information, as a whole, is free from material misstatement.

~~47.~~48. When the assurance practitioner modifies the conclusion with respect to the service performance information, the assurance practitioner shall consider the effect of the modification on the conclusion on the financial statements. (Ref: Para. A62)

~~48.~~49. If the assurance practitioner modifies the conclusion on the financial statements, the assurance practitioner shall consider the effect of the modification on the conclusion of the service performance information.

The Assurance Practitioner's Report

~~49.~~50. The assurance practitioner's report on the financial statements and the service performance information shall be included in a single report and shall include the elements required by ISRE (NZ) 2400[6] as applicable to the service performance information. (Ref: Para. A63-A64)

~~50.~~51. In addition to the requirements addressing financial statements in ISRE (NZ) 2400, the assurance practitioner's report shall:

(a) Describe the responsibilities of management or those charged with governance, as appropriate, including for:

(i) The selection of elements/aspects of service performance, performance measures and/or descriptions, and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful, in accordance with the applicable financial reporting framework;

(ii) The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework;

(iii) The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework; and

(iv) Such internal control as management or those charged with governance, as appropriate, determine is necessary to enable the preparation of service performance information that is free from material misstatement, whether due to fraud or error;

(b) Describe the assurance practitioner's responsibility to express a conclusion on the

6 ISRE (NZ) 2400, paragraph 86-NZ86.1

service performance information including reference to this NZ SRE and ISRE (NZ) 2400. This description should include the responsibility of the assurance practitioner to conclude whether anything has come to the assurance practitioner's attention that causes them to believe that the service performance information does not present fairly, in all material respects:

(i) in that the service performance information is appropriate and meaningful, and prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework;

(c) Describe a review of service performance information and its limitations, including the following statements:

(i) A review engagement under this NZ SRE and ISRE (NZ) 2400 is a limited assurance engagement;

(ii) That ~~T~~the assurance practitioner ~~performs~~ performed procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures, and, ~~as~~ [*a description of any other procedures the assurance practitioner ~~considers~~ considered necessary in the circumstances*], ~~other procedures~~, and ~~evaluates~~ evaluated the evidence obtained; and

(iii) That ~~T~~the procedures performed in a review are substantially less than those performed in an audit conducted in accordance with auditing standards issued by the External Reporting Board, and, accordingly, the assurance practitioner does not express an audit opinion on the service performance information; and

(d) Include a conclusion paragraph that:

(i) Contains the assurance practitioner's conclusion on the service performance information;

(ii) Identifies the service performance information; and

(iii) Refers to the measurement bases or evaluation methods.

~~51.~~52. When the assurance practitioner modifies the conclusion with respect to the service performance information only, the conclusion shall clearly indicate that the conclusion on the financial statements is not modified. The assurance practitioner shall:

(a) Use the heading "Qualified Conclusion on the Statement of Service Performance", "Adverse Conclusion on the Statement of Service Performance" or "Disclaimer of Conclusion on the Statement of Service Performance" as appropriate, for the conclusion paragraph in the assurance practitioner's report. The conclusion with respect to the financial statements shall use the heading "Conclusion on the Financial Statements"; and

(b) Provide a description of the matter giving rise to the modification, under an appropriate heading (for example, "Basis for Qualified Conclusion on the Statement of Service Performance", "Basis for Adverse Conclusion on the Statement of Service Performance" or "Basis for Disclaimer of Conclusion on the Statement of Service Performance", as appropriate), in a separate section in the assurance practitioner's report immediately before the conclusion paragraph

Commented [LT4]: *Issues Paper: Reporting - Summary of work performed*
For the assurance practitioner to provide a description of any "other" procedures performed as part of the summary of work performed, to improve the communicative value of the assurance practitioner report.

(referred to as the basis for conclusion paragraph in ISRE (NZ) 2400[7]).

Scope Limitation

~~52.~~53. If the assurance practitioner is unable to obtain sufficient appropriate evidence to form a conclusion, the assurance practitioner shall discuss with management or those charged with governance, as appropriate, the effects such limitations have on the scope of the review. (Ref: Para. A65-A66)

Emphasis of Matter Paragraphs and Other Matter Paragraphs

~~53.~~54. If the assurance practitioner considers it necessary to draw users' attention to a matter presented or disclosed in the service performance information, that in the assurance practitioner's judgement, is of such importance that it is fundamental to users' understanding of the service performance information, the assurance practitioner shall include an Emphasis of Matter paragraph in the assurance practitioner's report. For example, the assurance practitioner may draw to the attention of users' if a user would not have a complete picture of an entity's service performance when an entity discloses reasons for not reporting performance measures of a significant aspect of service performance.

Commented [LT5]: *Issues Paper: Reporting - Emphasis of Matter or Other Matter*
To provide an example of how these tools could be used by the assurance practitioner to enhance transparency of the entity's process in SPI reporting

~~54.~~55. If the assurance practitioner considers it necessary to communicate a matter other than those that are presented or disclosed in the service performance information, that in the assurance practitioner's judgement, is relevant to users' understanding of the review of service performance information, the assurance practitioner shall include an Other Matter paragraph in the assurance practitioner's report.

Communication with Management and Those Charged with Governance

~~55.~~56. In applying ISRE (NZ) 2400[8], the assurance practitioner shall communicate with management and those charged with governance, as appropriate, on a timely basis during the course of the review engagement, all matters concerning the review of service performance information that, in the assurance practitioner's professional judgement, are of sufficient importance to merit the attention of management or those charged with governance, as appropriate. (Ref: Para. A67-A69)

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Application and Other Explanatory Material

Introduction (Ref: Para. 2)

A1. The assurance practitioner may benefit from early engagement with the entity to understand the entity's service performance reporting process, and address any challenges that may arise having considered the factors required by paragraph 24.

A2. Service performance reporting requirements are generally less prescribed than financial information. This may result in varied service performance reporting between similar entities and industries. Therefore, when providing limited assurance over service performance information, prior to obtaining evidence that the service performance information fairly reflects actual performance, it is fundamental that the assurance practitioner uses their understanding of the entity, to firstly consider what service

7 ISRE (NZ) 2400, paragraph 80, 85

8 ISRE (NZ) 2400, paragraph 42

performance information the entity has selected to report, and how that information will be measured or evaluated.

Scope of this NZ SRE (Ref: Para. 6)

A3. An entity may be required to identify the service performance information that is prepared in accordance with the applicable financial reporting framework. This standard only applies to service performance information prepared in accordance with the applicable financial reporting framework.

General Requirements

Conduct Engagement in Accordance with ISRE (NZ) 2400 (Ref: Para. 9)

A4. This NZ SRE supplements ISRE (NZ) 2400. It expands on how ISRE (NZ) 2400 is to be applied to the service performance information. This NZ SRE includes specific requirements for the service performance information that are not explicitly dealt with by ISRE (NZ) 2400 or where the application of ISRE (NZ) 2400 differs as a result of the nature of the service performance information.

Professional Judgement and Professional Scepticism (Ref: Para. 12)

A5. The applicable financial reporting framework enables an entity to determine how it selects, aggregates, measures and presents its service performance information. As such, this elevates the need for early engagement and planning of sufficient time to obtain an understanding of the entity and to exercise professional judgement, particularly to assess whether the service performance information is appropriate and meaningful and to determine materiality. The assurance practitioner may find it helpful to seek out examples of service performance reporting of similar entities.

Documentation (Ref: Para. 14(a))

A6. Examples of the use of professional judgement to include in documentation include significant matters and judgements relating to:

- The rationale in concluding the appropriateness and meaningfulness of the service performance information (Ref: Para. 24).
- The factors considered in determining materiality and what measures are material (Ref: Para. 26).

Commented [LT6]: *Issues Paper: Use of the Verb "Consider"*
Use of the term 'rationale' to help illustrate that not a methodical evaluation when "considering" rather than "evaluating"

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

A7. The terms of the review engagement include references to the service performance information.

A8. A review is conducted in accordance with this NZ SRE on the basis that management, and where appropriate, those charged with governance, have acknowledged and understand that they have a responsibility for the preparation of service performance information that is appropriate and meaningful and for designing, implementing and maintaining a system of internal control that management and, where appropriate, those charged with governance, determine is necessary to enable the preparation of service performance information that is appropriate and meaningful. The entity's process to identify service performance information to report should appropriately support the preparation of service performance information that is appropriate and meaningful. In the absence of such a process, it may be difficult to establish whether management or those charged with governance, as appropriate, have a reasonable basis for the service performance information.

A9. Some entities are required by the applicable financial reporting framework to prepare entity information.[9] For Tier 3 registered charities that have a statutory review requirement[10], all information required to be prepared by the applicable reporting standard is required to be reviewed, including the entity information.

A10. An illustrative engagement letter that covers the agreed terms of the engagement of the performance report is set out in Appendix 1.

The Assurance Practitioner's Understanding

Understanding the Entity (Ref: Para. 16)

A11. The assurance practitioner may obtain an understanding through:

(a) Enquires with management or those charged with governance, as appropriate.

(b) Reading:

- Founding documents such as rules, constitution or trust deed.
- Statement of intent.
- Past statements of service performance.
- Funding documents or agreements.
- Minutes from governance meetings.
- Entity's newsletters.
- Entity's public website.
- Charities register.
- Media reports.

Understanding Laws and Regulations (Ref: Para. 17)

A12. Laws and regulations may differ among entities depending on their governing legislation.

A13. The nature of the performance report may be specified in applicable legislation, which may indirectly determine the nature of the performance information to be reported.

A14. The provisions of those laws and regulations may require the entity to present particular service performance information which may be over and above any requirements to comply with the applicable financial reporting framework. As the reporting is required by law and regulation the assurance practitioner is not required to assess whether the service performance information is appropriate and meaningful.

Understanding the Service Performance Information Reported (*Ref: Para. 18*)

9 Examples of financial reporting frameworks that require an entity information include:
- Reporting Requirements for Tier 3 Not-for-Profit Entities
- Reporting Requirements for Tier 3 Public Sector Entities
- Reporting Requirements for Tier 4 Not-for-Profit Entities
- Reporting Requirements for Tier 4 Public Sector Entities

10 Charities Act 2005

A15. The entity will need to interpret the applicable financial reporting framework and either select pre-existing external service performance information, including pre-established performance measures and/or descriptions, or measurement bases or evaluation methods from guidance, standards, laws or regulation, or it may need to apply judgement to develop internally its own performance measures and/or descriptions, or measurement bases or evaluation methods for its service performance information. The need for such judgement makes the preparation of service performance information inherently more susceptible to the risk of management bias.

A16. The process applied by the entity to determine what service performance information to report on and how to measure or evaluate its service performance information may affect the work that the assurance practitioner carries out. The level of potential management bias in selecting the elements/aspects of service performance, performance measures and/or descriptions, and measurement bases or evaluation methods directly correlates with the amount of work that the assurance practitioner may need to perform when considering the service performance information reported or intended to report. For example, use of performance measures and/or descriptions, or measurement bases or evaluation methods specified by external benchmarks or industry guidance may require less work than internally generated performance measures and/or descriptions, or measurement bases or evaluation methods, as external guidance reduces the risk of management bias. The entity may have documentation that reflects the process it went through in selecting its service performance information. Transparency about the entity's process to select its service performance information and the entity's consideration of materiality may also affect the work that the assurance practitioner carries out.

A17. In the early stages of reporting service performance information, the entity may not have developed an appropriate process, supported by internal controls, to identify its service performance information, or service performance information may be less accurate or complete. The entity may therefore be unable to include certain aspects of its service performance in its service performance information. The assurance practitioner exercises professional judgement to conclude on the impact of such omissions (including those for which the entity has provided reasons or explanations). This is particularly relevant since entities will be at varying stages of maturity in respect of preparing service performance information.

A18. Unforeseen events impacting the entity may require the entity to focus on different elements/aspects of service performance, performance measures and/or descriptions, or measurement bases or evaluation methods than intended when the service performance information was determined for the period. The assurance practitioner should gain an understanding of such events and the impact it has on service performance reporting and whether any alternative elements/aspects of service performance, performance measures and/or descriptions, or measurement bases or evaluation methods used are more appropriate and meaningful to fairly reflect the revised activities or services performance of the entity over the period.

Understanding of Internal Control (Ref: Para. 19)

A19. Internal control systems related to the preparation of service performance may be less developed or less well embedded into the operations than those related to the preparation of financial information. They may be less traditional to those used for financial information. Obtaining an understanding of the entity's internal controls early in the engagement may enable the practitioner to understand whether the internal controls are adequate to enable the practitioner to perform analytical procedures as required at paragraph 32 and allow the entity time to make any improvements needed to support the intended service performance reporting.

A20. An entity's internal control systems related to the preparation of service performance information may vary by size or complexity of the entity, and the nature and complexity of the service performance information. There is a difference between simple controls and inadequate controls. Simple controls may be adequate when the entity and the performance measure and/or description and its measurement basis or evaluation method are not complex.

Planning (Ref: Para. 20)

A21. Although it is likely that the service performance information and financial information will come from different systems, a single approach to the review recognises the inextricable link between the service performance information and the financial statements of an entity.

A22. It is important to engage with the entity as early as possible to understand the elements/aspects of service performance, performance measures and/or descriptions, and measurement bases or evaluation methods the entity intends to report.

A23. Expertise in a field other than accounting or assurance may be necessary as a result of information included in the service performance information, for example, expertise in relation to the measurement of complex performance measures.

Compliance With the Applicable Financial Reporting Framework

Appropriate and Meaningful (Ref: Para. 24)

A24. When considering the service performance information, the assurance practitioner ~~assesses~~ reflects on how well the entity has balanced the qualitative characteristics and pervasive constraints when selecting its elements/aspects of service performance, performance measures and/or descriptions, and measurement bases and evaluation methods. The assurance practitioner's documentation may include the factors they considered in reaching their conclusion rather than a systematic evaluation of the service performance information against each qualitative factor and pervasive constraint.

A25. Consideration of whether the service performance information will result in appropriate and meaningful reporting may include the following aspects of service performance information:

- The elements/aspects of service performance that the entity has selected to report on. For example, provide safe drinking water to stakeholders.
- The performance measures and/or descriptions the entity has used to report on what it has done in relation to the elements/aspects of service performance during the reporting period. For example, 100% of water supplied was safe.
- The measurement basis or evaluation method used to measure or evaluate the performance measure and/or description. For example, Drinking Water Standards for New Zealand or internally generated safe drinking water criteria.

Commented [LT7]: *Issues Paper: Lack of Internal Controls*
To encourage that, by engaging early with the entity, the assurance practitioner can use their understanding of the entity and knowledge of controls to identify any potential issues with a lack of internal controls and where improvements could be made.

Commented [LT8]: *Issues Paper: Use of the verb "to consider"*
An example to demonstrate a practical difference between "to consider" and "to evaluate" when assessing 'appropriate and meaningful'.

A26. It is the entity's responsibility to determine what information to report, and for the assurance practitioner to consider the process and rationale the entity applied in arriving at the selection of information to report, and to use professional judgement to assess whether the reported information does not present fairly, in all material respects, the service performance information.

A27. The entity's selection of appropriate and meaningful service performance information to report involves a considerable amount of judgement. Although enquiry may be the principal source of evidence, there may be documentation that provides evidence to support the judgements made by the entity in selecting the service performance information to report, for example, those referred to in paragraph A11.

A28. The assurance practitioner may consider whether the service performance information inappropriately attributes service performance to the entity. (Ref: Para. 24(a))

A29. The assurance practitioner may consider: (Ref: Para. 24(b))

- Whether the service performance information presents a neutral view including all significant aspects, both positive and negative.
- Whether any service performance information is omitted, where this is an appropriate link to the service performance of the entity.
- Whether there is potential for management bias in the selection of the performance measure and/or descriptions.
- If the entity reports targets, how those targets may obscure a proper understanding of the entity's service performance.
- The results of surveys. For example, satisfaction surveys, or other evidence of stakeholder consultation, e.g., feedback, complaints which may indicate the appropriateness of the service performance information.
- Whether the process to determine what service performance information to report involved the intended users and what information they may find helpful to assess the service performance of the entity - lowering the risk of management bias.
- External requirements or agreements with external parties that influence the entity's service performance accountability.
- Whether the service performance information was pre-agreed with key stakeholders.
- Guidelines developed and issued collectively by a group or published in journals or results of benchmarking studies, for example, in the central government sector, central agencies may provide guidance or establish requirements for the preparation of service performance information. The assurance practitioner may need to evaluate the suitability of these guidelines to the entity's circumstances and how these align to intended users' needs. More detailed service performance reporting may be more appropriate.
- Whether an overly voluminous service performance report is detracting from the usefulness and relevance of the overall report.
- Whether the service performance report is complete.

A30. An entity may select service performance information to report on the basis that the selected performance is readily obtainable or measurable however it may not be the most relevant information to enable the user to understand or assess the service performance of the entity. (Ref: Para. 24(b))

A31. The assurance practitioner may consider whether: (Ref: Para. 24(c))

- The service performance information shows clear and logical links between the element/aspect of service performance to be measured or evaluated and the entity's overall purpose and strategies.
- There is other potentially more relevant service performance information that could have been used and reasons why those were not included.
- The entity has a clear understanding of its contribution toward longer term elements/aspects of service performance.
- The entity uses a well-established performance framework, theory of change or intervention logic model to explain how its service performance during the reporting period relates to its broader aims and objectives or may have described predetermined objectives or specific performance goals or targets in agreements with key stakeholders; for example, a local authority's Long-Term Plan, statement of intent, charter, recent plans and strategies or agreements with key funders. The selection of service performance information pre-agreed with key stakeholders may have a lower risk of management bias.
- The service performance information reflects how the entity assesses its service performance for the purpose of internal decision making.

A32. The potential for management bias directly correlates with the amount of consideration that the assurance practitioner may need to give to the appropriateness and meaningfulness of the service performance information. For example, the assurance practitioner may need to consider management bias when there are multiple measurement bases or evaluation methods possible to assess a performance measure. Also, there may be greater management bias when the measurement basis or evaluation method is internally generated rather than an external industry standard. (Ref: Para. 24(e))

A33. Some service performance information that is more relevant for users, may be measured less precisely. The assurance practitioner may perform different review procedures than for those where the service performance can be more precisely measured. (Ref: Para. 24(e))

A34. The assurance practitioner's consideration of the appropriateness and meaningfulness of service performance information may be an iterative process.

Materiality (Ref: Para. 25-29)

A35. There can be significant variation in the service performance information selected and presented by entities. The assurance practitioner's understanding of the entity is important in determining what are the significant elements/aspects of the entity's service performance which are important to intended users of the service performance information.

A36. Understanding what elements/aspects of service performance are significant to users may assist the assurance practitioner in focusing their review efforts and applying professional judgement when considering any misstatements identified.

A37. The assurance practitioner's materiality considerations and determination of materiality is a matter of professional judgement. The requirements in paragraph 24, particularly the factors regarding relevance considered by the assurance practitioner in paragraphs A24 to A34, may assist the assurance practitioner to determine materiality considerations and/or materiality.

A38. The applicable financial reporting framework may discuss the concept of materiality in the context of preparation and presentation of service performance information. Such a discussion may provide a frame of reference to the assurance practitioner in determining what is material. The assurance practitioner's consideration of the entity's process to select the elements/aspects of service performance, the performance measures and/or descriptions, and measurement bases or evaluation methods to use also provides context in determining materiality considerations and/or materiality.

A39. The basis for materiality will likely differ from the financial statements. Materiality may be expressed in terms of the appropriate unit of account for each element/aspect of service performance or performance measure and/or description reported. The assurance practitioner is unlikely to be able to set an overall materiality because there is unlikely to be a common unit of account. It may be possible to group similar service performance measures and/or descriptions together and make materiality decisions on the same basis if they have the same unit of account.

A40. The materiality considerations determine the assurance practitioner's tolerance for misstatement in relation to material service performance measures and/or descriptions. Material misstatements may occur in both qualitative and quantitative service performance information. The assurance practitioner may need to exercise professional judgement beyond the traditional approach of applying a percentage to a chosen benchmark. In some instances, there may be no tolerance for error in some performance measures and/or descriptions.

A41. It is a matter of professional judgement whether the assurance practitioner's assessment of the significant elements/aspects of service performance and related material performance measures and/or descriptions required by paragraph 27(a) gives rise to a material misstatement.

A42. The assurance practitioner may firstly consider which elements/aspects of service performance are important to intended users. Having identified those, the assurance practitioner may then consider what are the material performance measures and/or descriptions that measure performance in those elements/aspects of service performance. A tolerance for misstatement is then applied by the assurance practitioner to material service performance measures and/or descriptions.

A43. The following qualitative factors may assist the assurance practitioner in applying materiality:

- The importance of the element/aspect of service performance to achieving the entity's service performance objectives. For example, whether the performance measure and/or description relates to the primary purpose of the entity. The more important the activity, the less tolerance for misstatement.
- How the information is presented. For example, does the presentation draw attention to particular information? The assurance practitioner may be less tolerant of misstatement in information that is given the most prominence.

Commented [LT9]: *Issues Paper: Other matters - materiality*
To emphasis guidance in applying qualitative factors to materiality

- The extent of interest shown in particular aspects of service performance by, for example funders, key stakeholders or the public; and for example, whether the service performance information is likely to cause funders to increase or decrease funding in the entity. The higher the level of interest shown, the lower the tolerance for misstatement. For matters where there is the most significant interest, the assurance practitioner may be less accepting of misleading or inaccurate information.
- The economic, social, political and environmental effect of a project or an entity's work, where there is a high level of wider societal interest in it, particularly high levels of public sensitivity, or relate to an activity that could be a significant risk to the public.
- Whether a misstatement affects compliance with law or regulation.
- Whether a particular aspect of the service performance information is significant with regard to the nature, visibility and sensitivity of the information. For example, there has been a large number of complaints relating to it, or relates to an activity that is strongly linked to management performance rewards.
- The relative volatility of reported service performance information. For example, if service performance information varies significantly from period to period.
- The number of persons or entities affected.
- Where there is information about achieving a target or threshold, and the relationship of the actual performance to the target. For example, the assurance practitioner may be particularly diligent where a target has only just been achieved.
- Whether a misstatement is material having regard to the assurance practitioner's understanding of known previous communications to users.
- When the subject matter information relates to a conclusion on compliance with law or regulation, the seriousness of the consequences of non-compliance.

Misstatements

A44. A misstatement may arise when:

- An element/aspect of service performance or performance measure or description, or a measurement basis or evaluation method selected is assessed by the assurance practitioner as not being appropriate and meaningful;
- An element/aspect of service performance or performance measure and/or description is omitted that is assessed by the assurance practitioner as being appropriate and meaningful;
- The information is not prepared in accordance with the entity's measurement basis or evaluation method;
- The entity's service performance information is not in accordance with the applicable financial reporting framework.

A45. An individual misstatement, impacting a single element/aspect of service performance, performance measure and/or description, may be material.

A46. A number of misstatements, when observed collectively across the service performance information, may also be material if they amount to a misleading portrayal of the entity's service performance information. Even though taken individually, each service performance measure and/or description may not be materially misstated, the assurance practitioner needs to consider whether the service performance information as a whole is materially misstated.

A47. It is unlikely that the assurance practitioner will be able to aggregate misstatements numerically. However, this does not remove the need for the assurance practitioner to form a conclusion as to whether uncorrected misstatements are material individually or collectively, as required by paragraph 29.

A48. The assurance practitioner exercises professional judgement to conclude on the impact of any material misstatement on the conclusion. The assurance practitioner may consider factors such as whether the misstatement impacts a significant element/aspect of service performance and whether it is likely to influence the decisions of the intended users.

A49. Examples of factors that may lead to a material misstatement, include:

- Misuse of language – that creates a misleading picture of the entity's performance.
- Misleading presentation – which highlights or downplays aspects of performance, to create a misleading picture of the entity's service performance.
- Bias – an emphasis is placed on good performance and downplays or omits poor performance i.e., isn't neutral.
- Omission of fact – something is left out that may be important to understanding the entity's service performance or is important to intended users.
- Incorrect measurement or evaluation – the service performance measure isn't prepared in accordance with the measurement basis or evaluation method selected by the entity.
- Where quantifiable service performance information misstates the level of actual performance beyond a determined level (the traditional application of materiality).
- Misstatement of fact.
- Misrepresentation of trend – performance presented does not represent the facts available.
- Unsubstantiated claims.

Designing and Performing Procedures (Ref: Para. 30-35)

A50. Service performance information may not come directly from traditional financial reporting information systems and source records. Nevertheless, the entity will need an accurate record keeping system that provides relevant and reliable evidence. The assurance practitioner may find it more challenging and need to think differently than for traditional financial reporting to obtain relevant and reliable evidence.

A51. The mix of procedures to be performed may vary compared with the mix used in regard to the financial statements, but the mix of procedures used does not alter the level of evidence required.

A52. In a review, the assurance practitioner performs primarily enquiry and analytical procedures. However, the nature of service performance information reported may have an effect on the mix of procedures used. For example, due to the nature of some of the service performance information analytical procedures may not be relevant and so another substantive procedure may be more appropriate.

A53. The fact that the assurance practitioner may deem it necessary to perform other procedures does not alter the assurance practitioner's objective of obtaining limited assurance in relation to the service performance information.

A54. The assurance practitioner's consideration of whether data to be used for analytical procedures are satisfactory for the intended purpose(s) of those procedures is based on the assurance practitioner's understanding of the entity and its environment and is influenced by the nature and source of data, and by the circumstances in which the data are obtained. The following considerations may be relevant:

- Source of the information available. For example, information may be more reliable when it is obtained from independent sources outside the entity.
- Nature and relevance of the information available. For example, what is the proximity of the information to the effect being reported.
- The knowledge, expertise and any related controls involved in the preparation of the information.

A55. In designing analytical procedures, the assurance practitioner may be able to identify relationships between the service performance information and the financial information as a sense check that the financial and service performance information are reflecting a consistent report of the performance of the entity. For example, does the movement in fuel expense in the financial statements reflect the number of home visits reported.

A56. When the assurance practitioner is engaged to review the service performance information of a group of entities, the planned nature, timing and extent of the procedures for the review are directed at achieving the assurance practitioner's objectives for the review engagement stated in this NZ SRE, but in the context of the group service performance information.

Use of Work Performed by Others (Ref: Para. 37-38)

A57. The assurance practitioner may use the work of an individual or organisation possessing expertise in a field other than accounting or assurance, whose work in that field is used by the entity to assist the entity in preparing the service performance information (a management's expert). Examples may include a professional survey firm conducting a perception questionnaire or satisfaction survey, or preparing a water quality report.

Reconciling the Service Performance Information to Underlying Records (Ref: Para. 39)

A58. The assurance practitioner ordinarily obtains evidence that the service performance information agrees with, or reconciles to, the underlying service performance records by tracing the service performance amounts reported to a summary record, for example, a schedule or spreadsheet that aggregates the service performance.

Commented [LT10]: *Issues Paper: Other Procedures*
Recommended wording change by respondent to improve clarity of when 'other procedures' may be required.

Commented [LT11]: *Issues Paper: Reconciling to underlying records*
This highlights an expectation that entity's maintain appropriate records to support the reported service performance. This may then lead to an improvement in the verifiability of the information.

Written Representations (Ref: Para. 39)

~~A58.~~A59. An illustrative written representation letter is set out in in Appendix 2.

Evaluating the Evidence Obtained (Ref: Para. 40)

~~A59.~~A60. What constitutes sufficient appropriate evidence is a matter of professional judgement. In exercising professional judgement, the assurance practitioner should consider the importance of the measure to the users. The assurance practitioner may need to identify alternative sources of evidence not normally considered for reviews of financial information. Multiple sources of evidence may be needed for some service performance measures depending on relevance and reliability of the evidence. Unless the assurance practitioner has reason to believe the contrary, the assurance practitioner can accept records and documents as genuine when testing the relevance and reliability of information.

Commented [LT12]: *Issues paper: Reliable data*
Provide further guidance in obtaining sufficient appropriate evidence

Forming the Assurance Practitioner's Conclusion on the Service Performance Information (Ref: Para. 41-48)

~~A60.~~A61. The measurement bases or evaluation methods used to assess a performance measure and/or description need to be made available to intended users to allow them to understand how the underlying service performance information has been measured or evaluated.

~~A61.~~A62. The measurement bases or evaluation methods may be made available to the intended users in one or more ways, for example:

(a) Publicly, for example, readily available documents such as a published external assessment framework on a website.

(b) Through inclusion in a clear manner in the presentation of the service performance information, in particular for entity-developed measurement bases or evaluation methods.

(c) Through inclusion in a clear manner in the description of the performance measure and/or description itself, for example, number of meals delivered.

(d) By general understanding, for example, the method of measuring time in hours and minutes. The assurance practitioner may consider whether it is clear what the time is measuring. For example, an entity may measure its response time to an outage but will need to be clear as to whether the response time is measured from when a call is lodged, or measures the time taken to address a fault from when someone arrives to address the fault.

Form of the Conclusion

Modified Conclusion (Ref: Para. 47)

~~A62.~~A63. In those circumstances where the assurance practitioner concludes that the service performance information is not presented fairly and that the assurance conclusion should be modified, the assurance practitioner will need to exercise professional judgement to determine whether to issue a modified conclusion on just the service performance information or whether to modify the conclusion on both the service performance information and the financial statements. In many instances, a modified conclusion in respect of the service performance information will not impact upon the conclusion on the financial statements.

The Assurance Practitioner's Report (Ref: Para. 49-54)

~~A63.~~A64. The assurance practitioner's report includes references to the service performance information. An illustrative Assurance Practitioner's Report that includes references to the service performance information is set out in Appendix 3.

A65. Illustrations of Assurance Practitioner's Reports with Modified Conclusions with respect to Service Performance Information are set out in Appendix 4.

A66. The assurance practitioner's report may describe additional details relevant to the review of the service performance information. The additional details are not intended to affect the assurance practitioner's conclusion. The assurance report may describe, for example:

- The underlying facts and information about the entity's process to select what service performance to report on (e.g. the maturity of the entity's process compared to others in the industry).
- Findings or recommendations for improvements to the service performance information.

~~A64.~~A67. The assurance practitioner is encouraged to report their findings or recommendations where the assurance practitioner considers the information would enhance transparency and assist the user to understand the level of maturity that the entity has achieved in its reporting. Reporting of findings and recommendations may promote and also highlight to the user improvements in reporting overtime.

Commented [LT13]: *Issues Paper: Reporting - Additional Information*
To facilitate effective communication in the assurance practitioner's report around the maturity of the entity's service performance reporting process.

Scope Limitation (Ref: Para. 52)

~~A65.~~A68. Inability to perform a specific procedure does not constitute a limitation on the scope of the review if the assurance practitioner is able to obtain sufficient appropriate evidence by performing other procedures.

~~A66.~~A69. Limitations on the scope of the review imposed by management may have other implications for the review, such as for the assurance practitioner's consideration of areas where the service performance information is likely to be materially misstated, and engagement continuance.

Communication with Management and Those Charged with Governance (Ref: Para. 55)

~~A67.~~A70. The assurance practitioner is encouraged to communicate with management or as appropriate, with those charged with governance early or as soon as practicable.

~~A68.~~A71. The assurance practitioner may communicate the following matters in relation to the review of service performance information:

(a) Any uncorrected misstatements identified during the review of the service performance information;

(b) The assurance practitioner's views about significant judgements made in reporting the entity's service performance information, if applicable, including any areas for improvement;

(c) Significant difficulties, if any, encountered during the review, for example, extensive unexpected effort required to obtain sufficient appropriate evidence or the unavailability of expected information.

(d) Unless all of those charged with governance are involved in managing the entity, significant matters arising during the review that were discussed, or subject to correspondence with management, such as, matters that were pervasive to the service performance information, biases in the performance measures and/or descriptions, for example, questions in a survey articulated to drive a particular result; and

(e) Any other matters in respect of the service performance information that, in the assurance practitioner's professional judgement, management and those charged with governance, as appropriate, need to be aware of.

~~A69.~~A72. The assurance practitioner's views on the judgemental areas of reporting the entity's service performance may be particularly relevant to those charged with governance in discharging their responsibilities for the preparation of the service performance information. For example, why the assurance practitioner considers the service performance information not to be appropriate and meaningful. Open and constructive communication including feedback on the maturity of the entity's process to prepare the service performance information, the service performance information selected by the entity or how the information compares to other entities may drive improvements over time. This may include comments about, for example, judgemental aspects of what service performance information to report on, concerns regarding management bias or the quality of the presentation of the information.

Appendix 1
(Ref: Para. A10)

Illustrative Review Engagement Letter including Service Performance Information[11]

The following is an example of a review engagement letter for a review of a [*financial report/ performance report*], which comprise financial statements and service performance information [*and entity information*]. It is assumed in this illustration that the applicable financial reporting framework is a fair presentation framework. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in ISRE (NZ) 2400 and NZ SRE 1. It will need to be varied according to individual requirements and circumstances. It may be appropriate to seek legal advice that any proposed letter is suitable.

***

To [*Those Charged with Governance*]:

[*The objective and scope of the review*]

You[12] have requested that we review the [*financial report/ performance report*] of [*ABC Entity (the "entity")*], which comprise the financial statements, and the service performance information [*, and entity information*]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X3[13], [*the statement of comprehensive revenue and expense, statement of financial performance, statement of changes in net assets/equity*], and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. We are pleased to confirm our acceptance and our understanding of this review engagement by means of this letter.

Our review will be conducted with the objective of our expressing our conclusion on the [*financial report/ performance report*].

[*The assurance practitioner's responsibilities*]

We will conduct our review of the financial statements in accordance with International Standard on Review Engagements (New Zealand) (ISRE (NZ)) 2400 *Review of Historical Financial Statements Performed by an Assurance Practitioner who is not the Auditor of the Entity* and the review of the service performance information [*, and entity information*] in accordance with the New Zealand Standard on Review Engagements (NZ SRE) 1 *Review of Service Performance Information*. Those standards require us to conclude whether anything has come to our attention that causes us to believe that the [*financial report/ performance report*] does not present fairly, in all material respects, the financial position, financial performance and cashflows of the entity, [the entity information], and the service performance information in that the service performance information is appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with [*the applicable financial reporting framework*].

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11 May also be referred to as the Statement of Service Performance.

12 Throughout this letter, references to "you," "we," "us," "management," "those charged with governance" and "assurance practitioner" would be used or amended as appropriate in the circumstances.

13 Where the assurance practitioner reports on more than one period, the assurance practitioner adjusts the date so that the letter pertains to all periods covered by the assurance practitioner's report.

Those standards also require that we comply with relevant ethical requirements.

A review of the [*financial report/ performance report*] in accordance with ISRE (NZ) 2400 and NZ SRE 1 is a limited assurance engagement. We will perform procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures and, ~~as~~ if in our professional judgement we consider necessary in the circumstances, other procedures, and evaluate the evidence obtained. We will also perform additional procedures if we become aware of matters that cause us to believe the [*financial report/ performance report*] as a whole may be materially misstated. These procedures are performed to enable us to express our conclusion on the [*financial report/ performance report*] in accordance with ISRE (NZ) 2400 and NZ SRE 1. The procedures selected will depend on what we consider necessary applying our professional judgement, based on our understanding of the entity and its environment, and our understanding of the applicable financial reporting framework and its application in the industry context.

A review is not an audit of the [*financial report/ performance report*], therefore:

(a) There is a commensurate higher risk than there would be in an audit, that any material misstatements that exist in the [*financial report/ performance report*] reviewed may not be revealed by the review, even though the review is properly performed in accordance with ISRE (NZ) 2400 and NZ SRE 1.

(b) In expressing our conclusion from the review of the [*financial report/ performance report*], our report on the performance report will expressly disclaim any audit opinion on the [*financial report/ performance report*].

[*The responsibilities of those charged with governance and identification of the applicable financial reporting framework*]

Our review will be conducted on the basis that [*Those Charged with Governance*] acknowledge and understand that they have responsibility, on behalf of the entity:

(a) For the preparation, and fair presentation of the [*financial report/ performance report*] in accordance with [*the applicable financial reporting framework*];

(b) For the selection of elements/aspects of service performance, performance measures and/or descriptions, and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful and, in accordance with [*the applicable financial reporting framework*];

(c) For the preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with [*the applicable financial reporting framework*];

(d) For the overall presentation, structure and content of the service performance information in accordance with [*the applicable financial reporting framework*];

(e) For such internal control as [*Those Charged with Governance*] determine is necessary to enable the preparation of the [*financial report/ performance report*] that is free from material misstatement, whether due to fraud or error; and

(f) To provide us with:

    (i) Access to all information of which [*management and [Those Charged with Governance]*] are aware that is relevant to the preparation of the [*financial report/ performance report*] such as records, documentation and other matters;

(ii) Additional information that we may request from [*management or [Those Charged with Governance]*] for the purpose of the review; and

(iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain evidence.

As part of our review, we will request from [*Those Charged with Governance*], written confirmation concerning representations made to us in connection with the review.

We look forward to full cooperation from your team during our review.

[*Other relevant information*]

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[*Reporting*]

[*Insert appropriate reference to the expected form and content of the assurance practitioner's report*.]

The form and content of our report may need to be amended in the light of our findings obtained from the review.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our review of the [*financial report/ performance report*] including our respective responsibilities.

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

Acknowledged and agreed on behalf of [*Those Charged with Governance*] of [*ABC Entity*] by

(signed)

....

Name and Title

Date

Appendix 2
(Ref: Para. A58)

Illustrative Representation Letter including Service Performance Information[14]

The following illustrative representation letter includes written representations that are required by ISRE (NZ) 2400 and NZ SRE 1. It is to be used as a guide only and will need to be modified according to the engagement requirements and circumstances.

Representations by management, or where appropriate, those charged with governance[15], will vary between entities and reporting periods. Representation letters are ordinarily useful where evidence, other than that obtained by enquiry, may not be reasonably expected to be available or when management, or where appropriate, those charged with governance have made oral representations which the assurance practitioner wishes to confirm in writing.

It is assumed in this illustration that the applicable financial reporting framework is a fair presentation framework, and that there are no exceptions to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.

***

(Entity Letterhead)

(To Assurance Practitioner) (Date)

This representation letter is provided in connection with your review of the [*financial report/ performance report*] of [*ABC Entity (the "entity")*] for the year ended December 31, 20X3[16] for the purpose of expressing a conclusion as to whether anything has come to your attention that causes you to believe that the accompanying [*financial report/ performance report*] does not present fairly, in all material respects:

- [the entity information as at December 31, 20X3;]
- the financial position of the entity as at December 31, 20X3, and its financial performance, and its cash flows for the year then ended; and
- the service performance for the year ended December 31, 20X3 in that the service performance information is appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods

in accordance with [*the applicable financial reporting framework (e.g.: Reporting Requirements for Tier 3 Not-for-Profit Entities)*] issued by the New Zealand Accounting Standards Board.

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

[*Financial Report/ Performance Report*]

- We have fulfilled our responsibilities on behalf of the entity, as set out in the terms of the review engagement dated [*insert date*], for:

14 May also be referred to as the Statement of Service Performance.

15 Use terminology as appropriate in the circumstances.

16 Where the assurance practitioner reports on more than one period, the assurance practitioner adjusts the date so that the letter pertains to all periods covered by the assurance practitioner's report.

- The preparation, and fair presentation of the [*financial report/ performance report*] in accordance with [*the applicable financial reporting framework*];
- The selection of elements/aspects of service performance, performance measures and/or descriptions, and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful, in accordance with [*the applicable financial reporting framework*];
- The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with [*the applicable financial reporting framework*];
- The overall presentation, structure and content of the service performance information in accordance with [*the applicable financial reporting framework*]; and
- Such internal control as [*Those Charged with Governance*] determine is necessary to enable the preparation of the [*financial report/ performance report*] that is free from material misstatement, whether due to fraud or error.

- [*Any other matters that the assurance practitioner may consider appropriate (see paragraph A105 of ISRE (NZ) 2400).*]

Information Provided

- We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the [*financial report/ performance report*] such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the review; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain evidence.
- We have disclosed to you:
  - The identity of the entity's related parties and all the related party relationships and transactions of which we are aware;
  - All significant facts relating to any frauds or suspected frauds known to us that may have affected the entity;
  - All known actual or possible non-compliance with laws and regulations for which the effects of non-compliance affect the entity's [*financial report/ performance report*];
  - All information relevant to use of the going concern assumption in the [*financial report/ performance report*];
  - That all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure, have been adjusted or disclosed;
  - Material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements, including disclosures;

- Material non-monetary transactions or transactions for no consideration undertaken by the entity in the financial reporting period under consideration; and
- [*Any other matters that the assurance practitioner may consider appropriate (see paragraph A105 of ISRE (NZ) 2400).*]

Signed on behalf of [*Those Charged with Governance*][17] of [*ABC Entity*] by

(signed)	(signed)
…...................	…...................
Name and Title	Name and Title

[17] The addressees and references in the letter would be those appropriate in the circumstances of the engagement.

Appendix 3
(Ref: Para. A63)

Illustrative Assurance Practitioner's Review Report including Service Performance Information[18]

<u>Illustration 1: Illustrative Assurance Practitioner's Review Report</u>

Circumstances include the following:

- **Review of a [*financial report/ performance report*] of a public benefit entity that is not a group.**
- **The [*financial report/ performance report*] is prepared in accordance with a fair presentation framework.**
- **The terms of the review engagement reflect the description of the responsibility of those charged with governance for the [*financial report/ performance report*].**
- **The assurance practitioner has concluded an unmodified (i.e., "clean") conclusion is appropriate based on the evidence obtained.**
- **The assurance practitioner has no other reporting responsibilities required under local law.**

Reference should be made to ISRE (NZ) 2400 to ensure that the requirements of ISRE (NZ) 2400 have been met.

INDEPENDENT ASSURANCE PRACTITIONER'S REVIEW REPORT

[*Appropriate Addressee*]

We have reviewed the accompanying [*financial report/ performance report*] of [*ABC Entity (the "entity")*], which comprise the financial statements on pages *x to xx,* and the service performance information on pages *x to xx* [, *and entity information on page x*]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X3, and [*the statement of comprehensive revenue and expense, statement of financial performance, statement of changes in net assets/equity*], and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

Responsibilities of [*Those Charged with Governance*] [19] for the [*Financial Report/ Performance Report*]

[*Those Charged with Governance*] are responsible on behalf of the entity for:

- The preparation, and fair presentation of the [*financial report/ performance report*] in accordance with the applicable financial reporting framework;
- The selection of elements/aspects of service performance, performance measures and/or descriptions, and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful, in accordance with [*the applicable financial reporting framework*];

[18] May also be referred to as the Statement of Service Performance.

[19] Use the term that is appropriate in the context of the engagement.

- The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with [*the applicable financial reporting framework*];
- The overall presentation, structure and content of the service performance information in accordance with [*the applicable financial reporting framework*]; and
- Such internal control as [*Those Charged with Governance*] determine is necessary to enable the preparation of the [*financial report/ performance report*] that is free from material misstatement, whether due to fraud or error.

Assurance Practitioner's Responsibilities

Our responsibility is to express a conclusion on the [*financial report/ performance report*]. We conducted our review of the financial statements in accordance with International Standard on Review Engagements (New Zealand) (ISRE (NZ)) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is not the Auditor of the Entity*, and [*entity information and*] service performance information in accordance with the New Zealand Standard on Review Engagements (NZ SRE) 1 *Review of Service Performance Information*. Those standards require us to conclude whether anything has come to our attention that causes us to believe that the [*financial report/ performance report*], taken as a whole, does not present fairly, in all material respects, the financial position, financial performance and cashflows of the entity, [the entity information], and the service performance information in that the service performance information is appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with [*the applicable financial reporting framework*].

Those standards also require that we comply with relevant ethical requirements.

A review of the [*financial report/ performance report*] in accordance with ISRE (NZ) 2400 and NZ SRE 1 is a limited assurance engagement. ~~The assurance practitioner performs procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures and, as we considered necessary in the circumstances, other procedures~~In conducting our review engagement, we performed procedures primarily consisting of making enquires of management and others within the entity, as appropriate, and analytical procedures, [*and other procedures consisting of sampling of stakeholder survey results as analytical procedures were not appropriate due to it first year a survey was conducted*]; and evaluated the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with auditing standards issued by the External Reporting Board. Accordingly, we do not express an audit opinion on the [*financial report/ performance report*].

Other than in our capacity as assurance practitioner we have no relationship with, or interests in, the entity.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying [*financial report/ performance report on pages x to xx*] does not present fairly, in all material respects:

- the financial position of the entity as at December 31, 20X3, and its financial performance, and its cash flows for the year then ended; and
- [the entity information as at December 31, 20X3; and]

- the service performance for the year ended December 31, 20X3 in that the service performance information is appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods

in accordance with [*the applicable financial reporting framework (e.g.: Reporting Requirements for Tier 3 Not-for-Profit Entities)*] issued by the New Zealand Accounting Standards Board.

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

[*Assurance practitioner's address*]

[*Date*]

Appendix 4

(Ref: Para. A64)

Illustrations of Assurance Practitioner's Reports with Modified Conclusions with respect to Service Performance Information

Illustration 1: Qualified conclusion on service performance information – the assurance practitioner is unable to obtain sufficient appropriate evidence.

Illustration 2: Qualified conclusion on both the financial statements and the service performance information – the assurance practitioner is unable to obtain sufficient appropriate evidence about a single element of the financial statements.

The following examples of extracts from modified assurance practitioner's report are for guidance only and are not intended to be exhaustive or applicable to all situations. They are based on the example report in Appendix 3.

Illustration 1: Qualified conclusion on service performance information – the assurance practitioner is unable to obtain sufficient appropriate evidence.

…

Basis for Qualified Conclusion on the Service Performance Information

Supporting records for the [*significant activities undertaken*] were not readily available and we were unable to perform alternative procedures. Consequently, we have been unable to obtain sufficient appropriate evidence to support the reported [*significant activities undertaken*] and we are unable to determine whether any adjustments to these amounts are necessary.

Qualified Conclusion on the Service Performance Information

Based on our review, except for the possible effects of the matter described in the Basis for Qualified Conclusion on the Service Performance Information paragraph, nothing has come to our attention that causes us to believe that the accompanying [*financial report/ performance report*] does not present fairly, in all material respects the accompanying the service performance for the year ended December 31, 20X3:

- in that the service performance information is appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods in accordance with [*the applicable financial reporting framework*] issued by the New Zealand Accounting Standards Board.

Conclusion on the [Entity Information and the] Financial Statements

Based on our review, nothing has come to our attention that causes us to believe that the accompanying [*financial report/ performance report*] does not present fairly, in all material respects:

- [the entity information as at December 31, 20X3; and]
- the financial position of the entity as at December 31, 20X3, and its financial performance, and its cash flows for the year then ended

in accordance with [*the applicable financial reporting framework*] issued by the New Zealand Accounting Standards Board.

…

Illustration 2: Qualified conclusion on both the financial statements and the service performance information – the assurance practitioner is unable to obtain sufficient appropriate evidence about a single element of the financial statements, which is also reported as service performance information.

…

Basis for Qualified Conclusion

As outlined on page xx of the [*financial report/ performance report*], entity has not applied the requirements of the applicable financial reporting framework to its grant expenditure. We have been unable to obtain sufficient appropriate evidence to quantify the effects of this limitation. As a result of this matter, we were unable to quantify the adjustments that are necessary in respect of grant expenditure in the [*statement of comprehensive revenue and expense*]; assets, liabilities and equity in the statement of financial position, [*total comprehensive revenue and expense and opening and closing equity in the statement of changes in equity*] and grants expense reported in the service performance information.

Qualified Conclusion

Based on our review, except for the possible effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe the accompanying [*financial report/ performance report*] does not present fairly, in all material respects:

- [the entity information as at December 31, 20X3;]
- the financial position of the entity as at December 31, 20X3, and its financial performance, and its cash flows for the year then ended; and
- the service performance for the year ended December 31, 20X3 in that the service performance information is appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods

in accordance with [*the applicable financial reporting framework*] issued by the New Zealand Accounting Standards Board.

GHG Assurance Snapshot

177 statements reviewed as at 31 August 2024

44 climate statements include references to assurance of GHG emissions:

- 10 climate reporting entities received assurance over their full GHG emissions disclosures included in their climate statements
- 6 climate reporting entities had assurance over some information about their GHG emissions assured (mainly selected metrics relating to scope 1 and scope 2).
- 28 entities included information that their GHG inventories were assured. An inventory report is not required by New Zealand climate standards. The GHG emissions disclosures included in climate statements were not subject to assurance.

Assurance over GHG disclosures in climate statements

10 climate statements included assurance over GHG emissions disclosures.

What level of assurance is provided:
All 10 entities obtained limited assurance.
All assurance was in accordance with ISAE (NZ) 3410.

What emissions were assured
7 entities - scope 1, 2 and all scope 3 emissions
3 entities - scope 1 and 2 and selected scope 3 emisssions

Who performed the assurance:
8 entities engaged financial statement auditor
2 entities engaged other accounting firm

What communication tools were included in assurance report:
6 assurance reports included Emphasis of Matter
1 assurance report included qualification

Emphasis of Matter (6/10):

- limitations relating to using third party data providers by climate related entities (4/10)
- operational control approach and rationale for including all portfolio company emissions in scope 3 emissions (1/10)
- another assurance provider assured GHG Inventory Report in previous years (1/10)

Basis for qualified assurance opinion (1/10):

- lack of access to third party provider to obtain sufficient evidence regarding scope 3 emissions

28 entities had only assurance over their GHG Inventory Report

Based on information included in climate statements, we were able to collect the following data on the assurance of GHG inventories of climate reporting entities:

What level of assurance is provided:
8 entities – reasonable assurance
5 entities - limited assurance
12 entities - mixed assurance[1]
3 entities – not clear

What emissions were assured
3 entities – only scope 1 and 2
11 entities - scope 1 and 2 and selected scope 3 emisssions
11 entities - scope 1, 2 and full scope 3 emissions
3 entities – scope not clear

Who performed the assurance:
9 entities engaged statutory auditor
19 entities engaged other assurance practitioner (not an accounting firm)

What communication tools were included in assurance report:
4 assurance reports included Emphasis of Matter

Emphasis of Matter (4/28):

- uncertainty associated with the calculation methodologies used for Scope 3 categories
- use of spend based emissions factors for some Scope 3 emissions
- use of industry average factors for some Scope 3 emissions
- the change in the base year reporting period

[1] mixed assurance – some entities received reasonable assurance over scope 1 and 2 and limited over scope 3, some entities received reasonable assurance over scope 1 and 2 and some parts of scope 3 and limited over remaining parts of scope 3

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

[INTRODUCTION, OBJECTIVES, DEFINITIONS AND REQUIREMENTS (CLEAN)]

This Agenda Item contains the final ISSA 5000, *General Requirements for Sustainability Assurance Engagements* approved at the IAASB September 2024 meeting.

Introduction

1. This International Standard on Sustainability Assurance (ISSA) deals with assurance engagements on sustainability information.

2. For purposes of this ISSA, sustainability information is information about sustainability matters. An entity's disclosures about such matters may relate to several different topics (e.g., climate, labor practices, biodiversity) and aspects of topics (e.g., risks and opportunities, metrics and key performance indicators). Law or regulation or sustainability reporting frameworks may describe sustainability matters, topics or aspects of topics in different ways, and may also provide requirements or guidance for the entity in determining the sustainability information to be reported. (Ref: Para. A1, A22-A23, A44, Appendix 1)

3. Sustainability information is reported in accordance with the criteria. This ISSA requires the practitioner to evaluate whether the criteria that the practitioner expects to be applied in the preparation of the sustainability information are suitable for the engagement circumstances. In the absence of indications to the contrary, framework criteria that are embodied in law or regulation or are established by authorized or recognized organizations that follow a transparent due process are presumed to be suitable. (Ref: Para. A2, A199)

4. The criteria may specify a process by which the entity identifies sustainability matters to be reported, including the application of materiality in identifying such matters and the reporting boundary. In this ISSA, "the entity's process to identify sustainability information to be reported" refers to the process applied by the entity to determine the sustainability matters to be reported in the sustainability information and the reporting boundary. (Ref: Para. A3)

5. The scope of the assurance engagement may extend to all of the sustainability information to be reported by the entity or only part of that information. For example, some jurisdictions may require the entirety of the sustainability information to be reported in accordance with an established framework to be subject to assurance. However, in certain jurisdictions, law or regulation may require that only climate-related disclosures in an entity's sustainability information be subject to assurance. The reporting requirements of this ISSA require the practitioner to identify or describe the information that is subject to the assurance engagement. (Ref: Para. A4)

6. This ISSA is premised on the basis that: (Ref: Para. A5)

   (a) The members of the engagement team and the engagement quality reviewer (for those engagements where one has been appointed) are subject to the provisions of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) related to sustainability assurance engagements, or professional requirements, or requirements in law or regulation, that are at least as demanding; and (Ref: Para. A6–A7, A58–A64)

(b) The practitioner who is performing the engagement is a member of a firm that is subject to ISQM 1,[1] or professional requirements, or requirements in law or regulation, regarding the firm's responsibility for its system of quality management, that are at least as demanding as ISQM 1. (Ref: Para. A8–A11, Para. A68–A74)

7. Quality management within firms that perform assurance engagements, and compliance with ethical principles, including independence requirements, are widely recognized as being in the public interest and an integral part of high-quality assurance engagements. When a practitioner performs a sustainability assurance engagement in accordance with this and other ISSAs, it is important to recognize that this ISSA includes requirements that reflect the premises described in paragraph 6. (Ref: Para. A8–A11)

Scope of this ISSA

8. This ISSA applies to all assurance engagements on sustainability information. It applies to all types of sustainability information, regardless of how that information is presented. (Ref: Para. A12–A14)

9. This ISSA deals with both reasonable and limited assurance engagements. Unless otherwise stated, each requirement of this ISSA applies to both reasonable and limited assurance engagements. Because the level of assurance obtained in a limited assurance engagement is substantially lower than in a reasonable assurance engagement, the procedures the practitioner will perform in a limited assurance engagement will vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. (Ref: Para. A15)

10. The *International Framework for Assurance Engagements* notes that an assurance engagement may be either an attestation engagement or a direct engagement. This ISSA deals only with attestation engagements. Therefore, references in this ISSA to "assurance engagement" or "engagement" mean an attestation engagement.

Relationship with ISAE 3000 (Revised)[2]

11. This ISSA is an overarching standard that includes requirements and application material for all elements of a sustainability assurance engagement. Accordingly, the practitioner is not required to apply ISAE 3000 (Revised) when performing the engagement.

Relationship with the Audited Financial Statements

12. This ISSA does not address sustainability information that is required to be included in the entity's financial statements in accordance with the applicable financial reporting framework. The auditor of the entity's financial statements is required to apply the International Standards on Auditing to such information.

13. Sustainability information may be presented together with the entity's audited financial statements, for example, as a part of the entity's annual report or in a separate document or documents accompanying the annual report. In these circumstances, the audited financial statements are considered other information for purposes of this ISSA.

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1 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*

2 International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

Scalability

14. This ISSA is intended for assurance engagements on sustainability information of all entities, regardless of size or complexity. However, the requirements of this ISSA are intended to be applied in the context of the nature and circumstances of the engagement.

Effective Date

15. This ISSA is effective for assurance engagements on sustainability information reported:

(a) For periods beginning on or after December 15, 2026; or

(b) As at a specific date on or after December 15, 2026.

Earlier application of this ISSA is permitted.

Objectives

16. In conducting a sustainability assurance engagement, the objectives of the practitioner are:

(a) To obtain reasonable assurance or limited assurance, as applicable, about whether the sustainability information is free from material misstatement;

(b) To express a conclusion on the sustainability information through a written report that conveys a reasonable assurance or a limited assurance conclusion, as applicable, and describes the basis for the conclusion; and

(c) To communicate further as required by this ISSA and any other relevant ISSA.

17. In all cases when reasonable assurance or limited assurance, as applicable, cannot be obtained and a qualified conclusion in the practitioner's assurance report is insufficient in the circumstances for purposes of reporting to the intended users, this ISSA requires the practitioner to disclaim a conclusion or withdraw from the engagement, where withdrawal is possible under applicable law or regulation.

Definitions

18. For purposes of the ISSAs, the following terms have the meanings attributed below:

Analytical procedures	Evaluations of sustainability information through analysis of plausible relationships among both quantitative and qualitative 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.
Another practitioner	A firm, other than the practitioner's firm, that performs work that the practitioner intends to use for purposes of the sustainability assurance engagement and the practitioner is unable to be sufficiently and appropriately involved in that work. For purposes of the ISSAs: (a) The work of another practitioner that the practitioner may intend to use for purposes of the sustainability assurance engagement is performed in the context of a separate engagement.

	(b) Individuals from another practitioner who perform the work are not members of the engagement team as they are not performing procedures on the sustainability assurance engagement. Such individuals are also not practitioner's experts. (c) References to using the work of another practitioner include, when applicable, work performed by individuals from that other firm.
Applicable criteria	The criteria used for the particular sustainability assurance engagement.
Appropriate party(ies)	Management or those charged with governance, as appropriate, or the engaging party, if different.
Assertions	Representations by the entity, explicit or otherwise, that are embodied in the sustainability information, as used by the practitioner to consider the different types of potential misstatements that may occur. (Ref: Para. A17R)
Assurance engagement	An engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users about the sustainability information. Each assurance engagement is either a: (a) Reasonable assurance engagement – An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's conclusion. The practitioner's conclusion is expressed in a form that conveys the practitioner's opinion on the outcome of the measurement or evaluation, including presentation and disclosure, of the sustainability matters against the applicable criteria; or (b) Limited assurance engagement – An assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe the sustainability information is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner's professional judgment, meaningful. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the

	intended users' confidence about the sustainability information to a degree that is clearly more than inconsequential.
Assurance skills and techniques	Planning, evidence gathering, evidence evaluation, communication and reporting skills and techniques demonstrated by an assurance practitioner that are distinct from the expertise in sustainability matters or their evaluation or measurement.
Attestation engagement	An assurance engagement in which a party other than the practitioner measures or evaluates the sustainability matters against the applicable criteria.
Comparative information	The sustainability information presented for one or more prior periods.
Component	An entity, business unit, function or business activity, or some combination thereof, within the reporting boundary, determined by the practitioner for purposes of planning and performing the sustainability assurance engagement. (Ref: Para. A18)
Component practitioner	A firm that performs assurance work related to a component for purposes of the sustainability assurance engagement, and the practitioner is able to be sufficiently and appropriately involved in that work. References to a component practitioner include, when applicable, individuals from that firm. The individuals from a component practitioner who perform the work are members of the engagement team. (Ref: Para. A19-A20)
Criteria	The benchmarks used to measure or evaluate the sustainability matters. Criteria comprise either framework criteria, entity-developed criteria or both. Framework criteria are either fair presentation criteria or compliance criteria. (Ref: Para. A21, A197) The term "fair presentation criteria" is used to refer to a sustainability reporting framework that requires compliance with the requirements of the framework and: (Ref: Para. A522-A523) (a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the sustainability information, it may be necessary for management to provide information beyond that specifically required by the framework; or (b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the sustainability information. Such departures are expected to be necessary only in extremely rare circumstances. The term "compliance criteria" is used to refer to a sustainability reporting framework that requires compliance with the requirements of the framework but does not contain the acknowledgments in (a) or (b) above.

Disclosure(s)	Sustainability information about an aspect of a topic. (Ref: Para. A22-A23)
Engagement circumstances	The broad context defining the particular assurance engagement, which includes: the terms of the engagement; the scope of the engagement and whether it is a reasonable assurance engagement or a limited assurance engagement; the characteristics of the sustainability matters; the applicable criteria; the information needs of the intended users; relevant characteristics of the entity and its reporting boundary; the characteristics of the entity's management and those charged with governance; and other matters that may have a significant effect on the engagement.
Engagement leader	The partner or other individual, appointed by the firm, who is responsible for the engagement and its performance, and for the assurance report that is issued on behalf of the firm, and who, when required, has the appropriate authority from a professional, legal or regulatory body. "Engagement leader" should be read as referring to its public sector equivalents where relevant. (Ref: Para. A24-A25)
Engagement risk	The risk that the practitioner expresses an inappropriate conclusion when the sustainability information is materially misstated. (Ref: Para. A26–A28R)
Engaging party	Management, those charged with governance, or another party, that engages the practitioner to perform the assurance engagement.
Engagement quality review	An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the assurance report.
Engagement quality reviewer	A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.
Engagement team	The engagement leader and other personnel performing the engagement, and any other individuals who perform procedures on the engagement, excluding a practitioner's external expert and internal auditors who provide direct assistance on the engagement. (Ref: Para. A29-A30)
Entity	The legal entity, economic entity, or the identifiable portion of a legal or economic entity, or combination of legal or other entities or portions of those entities, to which the sustainability information relates. (Ref: Para. A31)
Evidence	Information, after applying assurance procedures, that the practitioner uses to draw conclusions that form the basis for the practitioner's assurance conclusion and report. Sufficiency of

	evidence is the measure of the quantity of evidence. Appropriateness of evidence is the measure of the quality of evidence.
Firm	A sole practitioner, partnership or corporation or other entity of individual practitioners. “Firm” should be read as referring to its public sector equivalents where relevant. (Ref: Para. A32)
Fraud	An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage. (Ref: Para. A33-A34)
Further procedures	Procedures, including tests of controls and substantive procedures, performed in response to assessed risks of material misstatement.
Group	A reporting entity for which group sustainability information is prepared. (Ref: Para. A35)
Group sustainability assurance engagement	An assurance engagement on group sustainability information.
Group sustainability information	Sustainability information that includes the sustainability information of more than one entity or business unit in accordance with the criteria. (Ref: Para. A36)
Historical financial information	Information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods, or about economic conditions or circumstances at points in time in the past.
Intended users	The individual(s) or organization(s), or group(s) thereof, that the practitioner expects will use the sustainability assurance report. In some cases, there may be intended users other than those to whom the sustainability assurance report is addressed. (Ref: Para. A37-A39)
Internal audit function	A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity’s governance, risk management and internal control processes.
Management	The person(s) with executive responsibility for the conduct of the entity’s operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner–manager.
Management’s expert	An individual or organization possessing expertise in a field other than assurance, whose work in that field is used by the entity to assist the entity in preparing the sustainability information.

Misstatement	A difference between the disclosure(s) and the appropriate measurement or evaluation of the sustainability matters in accordance with the applicable criteria. Misstatements can arise from error or fraud, may be qualitative or quantitative, and include omitted information or information that obscures the presentation of the disclosures. (Ref: Para. A414, A468, A474)
Misstatement of the other information	A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information).
Network	A larger structure: (a) That is aimed at cooperation, and (b) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality management policies or procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.
Network firm	A firm or entity that belongs to the firm's network.
Non-compliance with laws and regulations	Acts of omission or commission, intentional or unintentional, committed by the entity, or by those charged with governance, by management or by other individuals working for or under the direction of the entity, which are contrary to the prevailing laws or regulations. Non-compliance does not include personal misconduct unrelated to the business activities of the entity.
Other information	Information not subject to the assurance engagement included in a document or documents containing the sustainability information subject to the assurance engagement and the assurance report thereon.
Partner	Any individual with authority to bind the firm with respect to the performance of a professional services engagement. (Ref: Para. A40)
Performance materiality	The amount or amounts set by the practitioner at less than the amount or amounts determined to be material for a quantitative disclosure to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in that disclosure is material.
Personnel	Partners and staff in the firm.
Practitioner	The individual(s) conducting the engagement (usually the engagement leader or other members of the engagement team, or, as applicable, the firm). Where this ISSA expressly intends that a

	requirement or responsibility be fulfilled by the engagement leader, the term "engagement leader" rather than "practitioner" is used.
Practitioner's expert	An individual or organization possessing expertise in a field other than assurance, whose work in that field is used by the practitioner to assist in obtaining sufficient appropriate evidence. A practitioner's expert may be either a practitioner's internal expert (who is a partner or staff, including temporary staff, of the practitioner's firm or a network firm), or a practitioner's external expert.
Professional judgment	The application of relevant training, knowledge, and experience, within the context provided by assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.
Professional skepticism	An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.
Professional standards	International Standards on Sustainability Assurance (ISSAs) and relevant ethical requirements.
Relevant ethical requirements	Principles of professional ethics and ethical requirements that are applicable to practitioners when undertaking assurance engagements on sustainability information. Relevant ethical requirements comprise the provisions of the IESBA Code related to sustainability assurance engagements, together with national requirements that are more restrictive, or professional requirements or requirements in law or regulation that an appropriate authority has determined to be at least as demanding as the provisions of the IESBA Code related to sustainability assurance engagements. (Ref: Para. A62-A63)
Reporting boundary	Activities, operations, relationships or resources to be included in the entity's sustainability information. For purposes of the ISSAs, the reporting boundary is determined in accordance with the applicable criteria. (Ref: Para. A41-A42)
Risk of material misstatement	The risk that the sustainability information is materially misstated prior to the engagement.
Risk assessment procedures	The procedures designed and performed to: (a) In a limited assurance engagement, identify and assess the risks of material misstatement, whether due to fraud or error, at the disclosure level; and (b) In a reasonable assurance engagement, identify and assess the risks of material misstatement, whether due to fraud or error, of the disclosures at the assertion level.

Staff	Professionals, other than partners, including any experts the firm employs.
Substantive procedures	Procedures designed to detect material misstatements. Substantive procedures comprise tests of details and analytical procedures. (Ref: Para. A43)
Sustainability competence	Competence in the sustainability matters that are the subject of the sustainability assurance engagement and in their measurement or evaluation.
Sustainability information	Sustainability information – Information about sustainability matters. (Ref: Para. A44) For purposes of the ISSAs: (a) Sustainability information results from measuring or evaluating sustainability matters against the criteria. (b) Sustainability information that is the subject of the assurance engagement is the equivalent of "subject matter information" in other IAASB assurance standards. (c) References to "sustainability information to be reported" are intended to relate to the entirety of the sustainability information to be reported by the entity, and are used primarily in the context of the practitioner's preliminary knowledge of the engagement circumstances. (d) If the assurance engagement does not cover the entirety of the sustainability information reported by the entity, the term "sustainability information" is to be read as the information that is subject to assurance. (Ref: Para. A45)
Sustainability matters	Environmental, social, governance or other sustainability-related matters as defined or described in law or regulation or relevant sustainability reporting frameworks, or as determined by the entity for purposes of preparing or presenting sustainability information. For purposes of the ISSAs, sustainability matters being measured or evaluated in accordance with the criteria are the equivalent of "underlying subject matter" in other IAASB assurance standards. (Ref: Para. A46-A46A)
System of internal control	The system designed, implemented and maintained by those charged with governance, management and other entity personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to sustainable business activities and the reliability of sustainability reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations related to sustainability matters. The term "controls" refers to policies or procedures that an entity establishes to achieve the control objectives of management or those

	charged with governance, relating to any aspects of one or more of the components of the system of internal control.
Those charged with governance	The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the sustainability reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner–manager.
Uncorrected misstatements	Misstatements that the practitioner has accumulated during the assurance engagement and that have not been corrected.

Requirements

Conduct of an Assurance Engagement in Accordance with the ISSAs

Complying with Standards that are Relevant to the Engagement

19. The practitioner shall comply with this ISSA and any other ISSAs relevant to the engagement.

20. The practitioner shall not represent compliance with this or any other ISSAs unless the practitioner has complied with the requirements of this ISSA and any other ISSAs relevant to the engagement. (Ref: Para. A47–A48)

Text of an ISSA

21. The practitioner shall have an understanding of the entire text of an ISSA, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref: Para. A49–A54)

Complying with Relevant Requirements (Ref: Para. A55-A56)

22. The practitioner shall comply with each requirement of this ISSA and any other relevant ISSAs unless, in the circumstances of the assurance engagement, the requirement is not relevant because it is conditional and the condition does not exist. Requirements that apply to only limited assurance or reasonable assurance engagements have the letter “L” (limited assurance) or “R” (reasonable assurance), respectively, after the paragraph number. When a requirement applies to both limited and reasonable engagements, but in a differential manner, such requirements have been presented in a columnar format with the “L” (limited assurance) and “R” (reasonable assurance) designations.

23. In exceptional circumstances, the practitioner may judge it necessary to depart from a relevant requirement in an ISSA. In such circumstances, the practitioner shall perform alternative procedures to achieve the aim of that requirement. The need for the practitioner to depart from a relevant requirement is expected to arise only when the requirement is for a specific procedure to be performed and, in the specific circumstances of the assurance engagement, that procedure would be ineffective in achieving the aim of the requirement.

Documentation of a Departure from a Relevant Requirement

24. If, in exceptional circumstances, the practitioner judges it necessary to depart from a relevant requirement in this ISSA or any other ISSAs, the practitioner shall document how the alternative

procedures performed achieve the aim of that requirement, and the reasons for the departure. (Ref: Para. A57)

Failure to Achieve an Objective

25. If an objective in this ISSA or any other ISSAs relevant to the engagement cannot be achieved, the practitioner shall evaluate whether this requires the practitioner to modify the practitioner's conclusion or withdraw from the assurance engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective in this or any other relevant ISSA represents a significant matter requiring documentation in accordance with paragraph 68.

Acceptance and Continuance of the Assurance Engagement

26. The practitioner shall accept or continue the engagement only when:

    (a) The practitioner has no reason to believe that relevant ethical requirements, including independence, will not be satisfied; (Ref: Para. A58–A64)

    (b) The practitioner has determined that those persons who are to perform the engagement collectively have the appropriate competence and capabilities, including having sufficient time, to perform the engagement; and

    (c) The basis upon which the engagement is to be performed has been agreed, by:

        (i) Establishing that the preconditions for an assurance engagement are present (see also paragraph 75); and

        (ii) Confirming that there is a common understanding between the practitioner and the engaging party of the terms of the engagement, including the practitioner's reporting responsibilities (see also paragraph 84).

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

28. The engagement leader shall determine that the firm's policies or procedures for the acceptance and continuance of client relationships and assurance engagements have been followed and that conclusions reached in this regard are appropriate in accepting the engagement in accordance with paragraph 26. (Ref: Para. A65-A67)

29. If the engagement leader obtains information that may have caused the firm to decline the engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement, the engagement leader shall communicate that information promptly to the firm, so that the firm and the engagement leader can take the necessary action.

Firm-level Quality Management

30. The engagement leader shall be a member of a firm that applies: (Ref: Para. A68-A72)

    (a) ISQM 1; or

    (b) Professional requirements, or requirements in law or regulation, that an appropriate authority has determined to be at least as demanding as ISQM 1. (Ref: Para: A73-A74)

Engagement-level Quality Management

Overall Responsibility for Managing and Achieving Quality

31. The engagement leader shall take overall responsibility for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement such that the engagement leader has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement. (Ref: Para. A75-A79)

32. If the engagement leader assigns the design or performance of procedures, tasks or actions related to a requirement of this ISSA to other members of the engagement team to assist the engagement leader in complying with the requirements of this ISSA, the engagement leader shall continue to take overall responsibility for managing and achieving quality on the engagement through direction and supervision of those members of the engagement team, and review of their work. (Ref: Para. A80)

Characteristics of the Engagement Leader

33. The engagement leader shall have: (Ref: Para. A81-A83)

    (a) Competence and capabilities in assurance skills and techniques developed through extensive training and practical application;

    (b) An understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the assurance engagement; and

    (c) Sustainability competence sufficient to accept responsibility for the conclusions reached on the engagement.

Relevant Ethical Requirements, Including Those Related to Independence

34. The practitioner shall comply with relevant ethical requirements, including those related to independence, that comprise: (Ref: Para. A58-A61, A64)

    (a) The provisions of the IESBA Code related to sustainability assurance engagements, together with national requirements that are more restrictive; or

    (b) Professional requirements, or requirements in law or regulation, that an appropriate authority has determined to be at least as demanding as the provisions of the IESBA Code related to sustainability assurance engagements. (Ref: Para: A62-A63)

35. The engagement leader shall take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the engagement, and the firm's related policies or procedures, including those that address: (Ref: Para. A84-A85)

    (a) Identifying, evaluating and addressing threats to compliance with relevant ethical requirements, including those related to independence;

    (b) Circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of breaches; and

    (c) The responsibilities of members of the engagement team when they become aware of an instance of non-compliance with laws and regulations by the entity.

36. If matters come to the engagement leader's attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement leader shall evaluate the threat through complying with the firm's policies or procedures, using relevant information from the firm, the engagement team or other sources, and take appropriate action. (Ref: Para. A85-A86)

37. Throughout the engagement, the engagement leader shall remain alert, through observation and making inquiries as necessary, for evidence of breaches of relevant ethical requirements by members of the engagement team. If matters come to the engagement leader's attention through the firm's system of quality management or otherwise that indicate that members of the engagement team have breached relevant ethical requirements, the engagement leader, in consultation with others in the firm, shall determine the appropriate action. (Ref: Para. A86)

Assurance Skills and Techniques, Professional Skepticism and Professional Judgment

38. The practitioner shall apply assurance skills and techniques as part of an iterative, systematic engagement process.

39. The practitioner shall plan and perform the engagement with professional skepticism, recognizing that circumstances may exist that cause the sustainability information to be materially misstated. (Ref: Para. A87-A92)

40. The practitioner shall exercise professional judgment in planning and performing the engagement, including determining the nature, timing and extent of procedures. (Ref: Para. A93-A95)

Engagement Resources

41. The engagement leader shall determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the engagement, the firm's policies or procedures, and any changes that may arise during the engagement. (Ref: Para. A96-A97)

42. The engagement leader shall determine that members of the engagement team, and any practitioner's external experts and internal auditors who provide direct assistance, collectively have the appropriate sustainability competence, competence and capabilities in assurance skills and techniques, and sufficient time, to perform the engagement. (Ref: Para. A98-A102)

43. If the practitioner intends to obtain evidence from using the work of a firm other than the practitioner's firm, the engagement leader shall determine whether the engagement leader will be able to be sufficiently and appropriately involved in such work. When the engagement leader: (Ref: Para. A103-A106)

    (a) Is able to be sufficiently and appropriately involved in that work, that firm is a component practitioner and the individuals performing the work are part of the engagement team. In such circumstances, the practitioner shall apply paragraphs 46-49 with respect to that work;

    (b) Is unable to be sufficiently and appropriately involved in that work, that firm is another practitioner, and the practitioner shall apply paragraphs 50-55 with respect to that work.

44. If, as a result of complying with the requirements in paragraphs 41-43, the engagement leader determines that resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement, the engagement leader shall take appropriate action, including communicating with appropriate individuals in the firm about the need to assign or make available additional or alternative resources to the engagement. (Ref: Para. A107-A109)

45. The engagement leader shall take responsibility for using the resources assigned or made available to the engagement team appropriately, given the nature and circumstances of the engagement. (Ref: Para. A110)

Direction, Supervision and Review

46. The engagement leader shall take responsibility for the direction and supervision of the members of the engagement team and the review of their work. (Ref: Para. A111-A116)

47. The engagement leader shall determine that the nature, timing and extent of direction, supervision and review is: (Ref: Para. A117-A118)

    (a) Planned and performed in accordance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements; and

    (b) Responsive to the nature and circumstances of the engagement and the resources assigned or made available to the engagement team by the firm.

48. The engagement leader shall review engagement documentation at appropriate points in time during the engagement, including documentation relating to: (Ref: Para. A119-A121, A175)

    (a) Significant matters;

    (b) Significant judgments, including those relating to difficult or contentious matters identified during the engagement, and the conclusions reached; and

    (c) Other matters that, in the engagement leader's professional judgment, are relevant to the engagement leader's responsibilities.

49. The engagement leader shall review, prior to their issuance, formal written communications to management, those charged with governance or regulatory authorities. (Ref: Para. A122)

Using the Work of Others

Using the Work of Another Practitioner

50. If the practitioner intends to obtain evidence from using the work of another practitioner, the practitioner shall: (Ref: Para. A123-A124)

    (a) Comply with relevant ethical requirements that apply to using the work of another practitioner; (Ref: Para. A125-A126)

    (b) Evaluate whether that practitioner has the necessary competence and capabilities for the practitioner's purposes; (Ref: Para. A127)

    (c) Evaluate whether the nature, scope and objectives of that practitioner's work are appropriate for the practitioner's purposes; and (Ref: Para. A128)

    (d) Determine whether the evidence obtained from that practitioner's work is adequate for the practitioner's purposes. (Ref: Para. A124)

51. In making the evaluation in accordance with paragraph 50(b) and determination in accordance with paragraph 50(c), if the practitioner plans to use an assurance report of another practitioner that has been designed for use by user entities and their assurance practitioners across a value chain (referred to in this ISSA as a one-to-many report), the practitioner shall determine whether that assurance report provides sufficient appropriate evidence for the practitioner's purposes by evaluating: (Ref: Para. A129-A131, A293)

    (a) Whether the description of the procedures performed and the results thereof are appropriate for the practitioner's purposes; and

(b) The adequacy of the standard(s) under which the assurance report was issued.

52. If the practitioner intends to obtain evidence about the operating effectiveness of controls in accordance with paragraphs 117R or 118L, as applicable, the practitioner shall determine whether any complementary user entity controls identified in a one-to-many or other assurance report of another practitioner are relevant to the user entity. (Ref: Para: A130)

53. In making the determination in accordance with paragraph 50(c), the practitioner shall, to the extent necessary in the circumstances, communicate with another practitioner about the findings from another practitioner's work. (Ref: Para. A132-A133)

54. The practitioner shall determine whether, and the extent to which, it is necessary to review additional documentation of the work performed by another practitioner. (Ref: Para. A134)

55. If the practitioner determines that the evidence obtained from the work of another practitioner is not adequate for the practitioner's purposes, including when the practitioner is unable to obtain information to make that determination or when the practitioner is not satisfied that communications with another practitioner are adequate for the practitioners' purposes, the practitioner shall:

    (a) Determine whether the practitioner is able to obtain sufficient appropriate evidence through performing alternative procedures; and

    (b) If sufficient appropriate evidence cannot be obtained through performing alternative procedures, consider the implications for the engagement, including whether a scope limitation exists. (Ref: Para. A135)

Using the Work of a Practitioner's Expert

56. If the practitioner plans to use the work of a practitioner's expert, the practitioner shall: (Ref: Para. A136-A138)

    (a) Evaluate whether the expert has the necessary competence, capabilities and objectivity for the practitioner's purposes. (Ref: Para. A139-A142)

    (b) When evaluating the objectivity of a practitioner's external expert, inquire regarding interests and relationships that may create a threat to that expert's objectivity; (Ref: Para. A142-A144)

    (c) Obtain a sufficient understanding of the field of expertise of the expert to determine the nature, scope and objectives of that expert's work for the practitioner's purposes; and (Ref: Para. A145-A146)

    (d) Agree with the expert, in writing when appropriate, on:

        (i) The nature, scope and objectives of that expert's work; and (Ref: Para. A146-A147)

        (ii) The respective roles and responsibilities of the practitioner and that expert, including the nature, timing and extent of communication between the practitioner and expert. (Ref: Para A148-A149)

57. The practitioner shall evaluate the adequacy of the practitioner's expert's work for the practitioner's purposes, including: (Ref: Para A150)

    (a) The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other evidence obtained by the practitioner;

    (b) If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and

(c) If that expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data.

58. If the practitioner determines that the work of the practitioner's expert is not adequate for the practitioner's purposes, the practitioner shall:

(a) Agree with that expert on the nature and extent of further work to be performed; or

(b) Perform additional procedures appropriate to the circumstances.

Using the Work of the Internal Audit Function

59. If the practitioner plans to use the work of the internal audit function, the practitioner shall: (Ref: Para. A152-A154)

(a) Evaluate the extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors;

(b) Evaluate the level of competence of the internal audit function, including in sustainability matters and applicable criteria;

(c) Evaluate whether the internal audit function applies a systematic and disciplined approach, including a system of quality control;

(d) Determine whether, and to what extent, to use specific work of the internal audit function; and

(e) Determine whether that work is adequate for the practitioner's purposes.

Communications Among Those Involved in the Engagement

60. The engagement leader shall take responsibility for determining that communications take place at appropriate times throughout the engagement among the engagement team and, as applicable, practitioner's external experts and the internal audit function. (Ref: Para. A155-A159)

Consultation

61. The engagement leader shall take responsibility for the engagement team undertaking consultation on:

(a) Difficult or contentious matters and matters on which the firm's policies or procedures require consultation; and

(b) Other matters that, in the engagement leader's professional judgment, require consultation.

Engagement Quality Review

62. For those engagements for which an engagement quality review is required in accordance with ISQM 1 or the firm's policies or procedures, the engagement leader shall discuss significant matters and significant judgments arising during the engagement, including those identified during the engagement quality review, with the engagement quality reviewer.

Monitoring and Remediation

63. The engagement leader shall: (Ref: Para. A160-A161)

(a) Consider information from the firm's monitoring and remediation process, as communicated by the firm, including, as applicable, information from the monitoring and remediation process of the network and across the network firms; and

(b) Determine whether the information may affect the engagement and, if so, take appropriate action.

Fraud and Non-Compliance with Laws and Regulations

64. The practitioner shall maintain professional skepticism throughout the engagement, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the practitioner's past experience of the honesty and integrity of the entity's management and those charged with governance. (Ref: Para. A162)

65. The practitioner shall remain alert to the possibility that procedures performed during the engagement may bring instances of non-compliance or suspected non-compliance with laws and regulations to the practitioner's attention.

66. In the absence of identified or suspected non-compliance, the practitioner is not required to perform procedures regarding the entity's compliance with laws and regulations, other than those set out in paragraphs 65 and 109-110.

66A. If the practitioner identifies fraud or suspected fraud, or instances of non-compliance or suspected non-compliance with laws and regulations, the practitioner shall determine whether law, regulation or relevant ethical requirements: (Ref: Para. A163-A167, A429)

(a) Require the practitioner to report to an appropriate authority outside the entity; or

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

Communication with Management and Those Charged with Governance

67. The practitioner shall communicate with management or those charged with governance, on a timely basis during the engagement, significant matters that, in the practitioner's professional judgment, merit the attention of management or those charged with governance, as appropriate. (Ref: Para. A168-A172)

Documentation

Overarching Documentation Requirements

Form, Content and Extent of Engagement Documentation

68. The practitioner shall prepare, on a timely basis, engagement documentation that provides a record of the basis for the assurance report that is sufficient and appropriate to enable a practitioner experienced in sustainability assurance, having no previous connection with the assurance engagement, to understand: (Ref: Para. A173-A175)

(a) The nature, timing and extent of the procedures performed to comply with this ISSA, other relevant ISSAs and applicable legal and regulatory requirements;

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

(c) Significant matters arising during the assurance engagement, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (Ref: Para. A176-A178)

69. In documenting the nature, timing and extent of procedures performed, the practitioner shall record: (Ref: Para. A179-A180)

(a) The identifying characteristics of the specific items or matters tested;

(b) Who performed the assurance engagement work and the date such work was completed; and

(c) Who reviewed the assurance engagement work performed and the date and extent of such review.

70. The engagement documentation shall also include discussions of significant matters with management, those charged with governance and others, including the nature of the significant matters discussed, and when and with whom the discussions took place. (Ref: Para. A181)

Assembly of the Final Engagement File

71. The practitioner shall assemble the engagement documentation in an engagement file and complete the administrative process of assembling the final engagement file on a timely basis after the date of the assurance report. After the assembly of the final engagement file has been completed, the practitioner shall not delete or discard engagement documentation of any nature before the end of its retention period. (Ref: Para. A182-A184)

72. In circumstances other than those envisaged in paragraph 209, when the practitioner finds it necessary to modify existing engagement documentation or add new engagement documentation after the assembly of the final engagement file has been completed, the practitioner shall, regardless of the nature of the modifications or additions, document:

(a) The specific reasons for making them; and

(b) When and by whom they were made and reviewed.

Documentation Related to Quality Management

73. The practitioner shall include in the engagement documentation: (Ref: Para. A185)

(a) Issues identified with respect to compliance with relevant ethical requirements and how they were resolved;

(b) Conclusions about compliance with independence requirements that apply to the engagement, and any relevant discussions with the firm that support these conclusions;

(c) Conclusions reached regarding the acceptance and continuance of client relationships and assurance engagements, including with respect to the preconditions for an assurance engagement; and

(d) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the engagement.

Preconditions for an Assurance Engagement

Establishing Whether the Preconditions are Present

74. The practitioner shall obtain a preliminary knowledge of the engagement circumstances, including: (Ref: Para. A186)

(a) The sustainability information to be reported; and

(b) Whether the scope of the proposed assurance engagement encompasses all or part of the sustainability information in (a). (Ref: Para. A187)

75. In order to establish whether the preconditions for an assurance engagement are present, based on the preliminary knowledge of the engagement circumstances and discussion with the appropriate party(ies), the practitioner shall: (Ref: Para. A186, A188-A189)

(a) Consider whether the entity has a process to identify sustainability information to be reported; (Ref: Para. A189)

(b) Evaluate whether the roles and responsibilities of management, those charged with governance and the engaging party, if different, are suitable in the circumstances. In doing so, the practitioner shall also evaluate whether management, or those charged with governance, when appropriate, have a reasonable basis for the sustainability information; and (Ref: Para. A188(a), A190-A193)

(c) Evaluate whether the engagement exhibits all of the characteristics in paragraphs 76-79.

Appropriate Sustainability Matters

76. The practitioner shall evaluate whether the sustainability matters within the scope of the engagement are appropriate. In doing so, the practitioner shall consider whether those sustainability matters are identifiable and capable of consistent measurement or evaluation against the applicable criteria, such that the resulting sustainability information can be subjected to procedures for obtaining sufficient appropriate evidence. (Ref: Para. A194-A195)

Suitability and Availability of Criteria

77. The practitioner shall evaluate whether the criteria that the practitioner expects to be applied in the preparation of the sustainability information are suitable for the engagement circumstances and will be available to the intended users. In doing so, the practitioner shall:

(a) Evaluate whether there are criteria for all of the sustainability information subject to the assurance engagement; (Ref: Para. A196)

(b) Identify the sources of the criteria, including whether they are framework criteria, entity–developed criteria or a combination of both; (Ref: Para. A197-A201A, A301A)

(c) Evaluate whether the criteria exhibit the following characteristics: (Ref: Para. A202-A204, A332-A335)

(i) Relevance; (Ref: Para. A336-A337)

(ii) Completeness; (Ref: Para. A338)

(iii) Reliability; (Ref: Para. A339)

(iv) Neutrality; (Ref: Para. A340- A341) and

(v) Understandability; and (Ref: Para. A342)

(d) Evaluate whether and how the criteria will be made available to the intended users. (Ref: Para. A205)

Evidence to Support the Practitioner’s Conclusion and Form of Conclusion

78. The practitioner shall determine whether

(a) The practitioner expects to be able to obtain the evidence needed to support the practitioner’s conclusion; and (Ref: Para. A206-A209L)

(b) The practitioner’s conclusion, in the form appropriate for the engagement, is to be contained in a written report.

Rational Purpose

79. The practitioner shall determine whether the engagement exhibits a rational purpose. In doing so, the practitioner shall determine whether: (Ref: Para. A210-A211)

    (a) In the case of a limited assurance engagement, the practitioner expects to be able to obtain a meaningful level of assurance; (Ref: Para. A212L-A214L)

    (b) The engagement as a whole will be useful and not misleading to intended users; and

    (c) The scope of the assurance engagement is appropriate, including when the scope of the assurance engagement excludes part of the sustainability information to be reported. (Ref: Para. A215-A220)

Deciding Whether to Accept or Continue the Assurance Engagement

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

Preconditions Not Present After Acceptance

81. If it is discovered after the engagement has been accepted that one or more preconditions for an assurance engagement is not present, the practitioner shall discuss the matter with the appropriate party(ies), and shall determine: (Ref: Para. A221)

    (a) Whether the matter can be resolved to the practitioner's satisfaction;

    (b) Whether it is appropriate to continue with the engagement; and

    (c) Whether and, if so, how to communicate the matter in the assurance report.

82. If it is discovered after the engagement has been accepted that some or all of the applicable criteria are unsuitable or some or all of the sustainability matters are not appropriate for an assurance engagement, the practitioner shall consider withdrawing from the engagement, if withdrawal is possible under applicable law or regulation. If the practitioner continues with the engagement, the practitioner shall express a qualified or adverse conclusion, or disclaimer of conclusion, as appropriate in the circumstances. (Ref: Para. A221)

Assurance Report Prescribed by Law or Regulation

83. If law or regulation prescribes the layout or wording of the assurance report that is different from the requirements of the ISSAs, the practitioner shall evaluate:

    (a) Whether intended users may misunderstand the practitioner's conclusion; and

    (b) If so, whether additional explanation in the assurance report can mitigate the possible misunderstanding.

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

Terms of the Assurance Engagement

Agreeing the Terms of the Assurance Engagement

84. The practitioner shall agree the terms of the assurance engagement with the engaging party. The agreed terms shall be specified in sufficient detail in an engagement letter or other suitable form of written agreement, written confirmation, or in law or regulation, and shall include: (Ref: Para. A222-A225)

    (a) Matters related to the objective and scope of the assurance engagement, including:

        (i) The objective of the assurance engagement;

        (ii) The sustainability information within the scope of the assurance engagement, and the sustainability information that is not within the scope of the assurance engagement;

        (iii) The reporting boundary within the scope of the assurance engagement;

        (iv) Whether the engagement is a limited assurance engagement, reasonable assurance engagement, or a combined limited and reasonable assurance engagement and the sustainability information that is subject to each level of assurance;

        (v) The applicable criteria; and

        (vi) That the assurance engagement will be conducted in accordance with ISSA 5000 *General Requirements for Sustainability Assurance Engagements.*

    (b) The responsibilities of the practitioner;

    (c) The responsibilities of management or those charged with governance, as appropriate for:

        (i) The preparation of the sustainability information in accordance with the applicable criteria, including, where relevant, its fair presentation;

        (ii) When applicable, identifying, selecting or developing suitable criteria;

        (iii) Referring to or describing in its sustainability information, the applicable criteria it has used and, when it is not readily apparent from the engagement circumstances, who developed them;

        (iv) Designing, implementing and maintaining a system of internal control that the entity determines is necessary to enable the preparation of sustainability information in accordance with the applicable criteria that is free from material misstatement, whether due to fraud or error;

        (v) Providing the practitioner with:

            a. Access to all information of which management is aware that is relevant to the preparation of the sustainability information;

            b. Additional information that the practitioner may request for the purpose of the assurance engagement; and

            c. Unrestricted access to persons within the entity, from whom the practitioner determines it necessary to obtain evidence;

(d) Reference to the expected form and content of the report or reports to be issued by the practitioner and a statement that there may be modifications to the report in certain circumstances; and

(e) An acknowledgement that management agrees to provide written representations at the conclusion of the assurance engagement.

85. For recurring assurance engagements, the practitioner shall evaluate whether the circumstances require the terms of the assurance engagement to be revised or there is a need to remind the appropriate party(ies) of the existing terms.

Changing the Terms of the Assurance Engagement

86. The practitioner shall not agree to a change in the terms of the assurance engagement, including from a reasonable assurance engagement to a limited assurance engagement (i.e., to a lower level of assurance), when there is no reasonable justification for doing so. If the practitioner is unable to agree to a request to change in the terms of the assurance engagement and is not permitted by the appropriate party(ies) to continue the assurance engagement under the original terms, the practitioner shall: (Ref: Para. A226–A227)

(a) Withdraw from the assurance engagement, when possible under applicable law or regulation; and

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

87. If the terms of the assurance engagement are changed:

(a) The practitioner and the appropriate party(ies) shall agree on and record the new terms of the assurance engagement in an engagement letter or other suitable form of written agreement; and

(b) The practitioner shall not disregard evidence that was obtained prior to the change.

Evidence

Designing and Performing Procedures to Obtain Sufficient Appropriate Evidence

88. For the purpose of obtaining sufficient appropriate evidence, the practitioner shall design and perform procedures: (Ref: Para. A228–A229)

(a) In a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory; and (Ref: Para. A230–A231)

(b) The nature, timing and extent of which are appropriate in the circumstances to provide evidence to meet the intended purpose of those procedures. (Ref: Para. A232–A247)

Information Intended to be Used as Evidence

89. When designing and performing procedures, the practitioner shall evaluate the relevance and reliability of information intended to be used as evidence, including information obtained from sources external to the entity. (Ref: Para. A248–A266)

90. When using information produced by the entity, the practitioner shall evaluate whether the information is sufficiently reliable for the practitioner's purposes, including, as necessary in the circumstances: (Ref: A267-A268)

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

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

Work Performed by a Management's Expert

91. If information intended to be used as evidence has been prepared by a management's expert, as part of the practitioner's evaluation in accordance with paragraph 89, the practitioner shall, to the extent necessary, having regard to the significance of that expert's work for the practitioner's purposes*:* (Ref: Para. A269)

    (a) Evaluate the competence, capabilities and objectivity of that expert; (Ref: Para. A270-A271)

    (b) Obtain an understanding of the work performed by that expert; (Ref: Para. A272)

    (c) Obtain an understanding about how the information prepared by that expert has been used by management in the preparation of the sustainability information; and (Ref: Para. A273-A274)

    (d) Evaluate the appropriateness of the work of that expert as evidence. (Ref: A274A)

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

92. If conditions identified during the assurance engagement cause the practitioner to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the practitioner, the practitioner shall investigate further and determine the effect on the rest of the evidence obtained. (Ref: Para. A275-A277)

93. If the practitioner has doubts about the relevance or reliability of information intended to be used as evidence, the practitioner shall: (Ref: Para. A278)

    (a) Determine whether modifications or additions to procedures are necessary to resolve the doubts; and

    (b) If the doubts cannot be resolved, consider the effect, if any, on other aspects of the engagement, including whether such doubts indicate a risk that disclosures may be materially misstated due to fraud.

Planning

Planning Activities

94. The practitioner shall develop an overall strategy and engagement plan, including determining the nature, timing and extent of planned procedures. In doing so, the engagement leader shall consider information obtained in the acceptance and continuance process and, if applicable, whether knowledge obtained on other engagements performed by the engagement leader for the entity is relevant. (Ref: Para. A279-A289)

95. For a group sustainability assurance engagement, in developing the overall strategy and engagement plan in accordance with paragraph 94, the practitioner shall determine: (Ref: Para. A286-A293)

    (a) The sustainability information on which assurance work will be performed and the source of that information; (Ref: Para. A290)

    (b) The resources needed to perform the engagement, including component practitioner(s); and (Ref: Para. A108, A291-A292)

(c) Whether to obtain evidence from the work performed by another practitioner(s). (Ref: Para. A293)

96. The engagement leader and other key members of the engagement team shall be involved in planning the assurance engagement, including participating in the discussion among the engagement team members required by paragraph 104.

Materiality

97. For purposes of planning and performing the assurance engagement, and evaluating whether the sustainability information is free from material misstatement, the practitioner shall: (Ref: Para. A294-A301)

    (a) Consider materiality for qualitative disclosures; and (Ref: Para. A302)

    (b) Determine materiality for quantitative disclosures. (Ref: Para. A303-A307)

98. If the applicable criteria require the entity to apply both financial materiality and impact materiality in preparing the sustainability information, the practitioner shall take into account both perspectives when considering or determining materiality in accordance with paragraph 97. (Ref: Para. A308, A337)

99. For quantitative disclosures, the practitioner shall determine performance materiality. (Ref: Para. A309-A313)

Revision of Materiality as The Engagement Progresses

100. The practitioner shall revise materiality for a disclosure(s) in the event of becoming aware of information during the assurance engagement that would have caused the practitioner to have considered or determined a different materiality initially. (Ref: Para. A314)

Documentation

101. The practitioner shall include in the engagement documentation:

    (a) The factors relevant to the practitioner’s consideration of materiality for qualitative disclosures in accordance with paragraph 97(a);

    (b) The basis for the determination of materiality for quantitative disclosures, in accordance with paragraph 97((b); and

    (c) The basis for the practitioner’s determination of performance materiality in accordance with paragraph 99.

Risk Assessment Procedures

Designing and Performing Risk Assessment Procedures

Limited Assurance	Reasonable Assurance
102L. The practitioner shall design and perform risk assessment procedures sufficient to: (Ref: Para. A315-A320, A413AL) (a) Identify and assess risks of material misstatement, whether due to fraud or error, at the disclosure level; and	102R. The practitioner shall design and perform risk assessment procedures sufficient to: (Ref: Para. A315-A320, A413R) (a) Identify and assess risks of material misstatement, whether due to fraud or error, at the assertion level for the disclosures; and

(b) Design and perform further procedures.	(b) Design and perform further procedures.

103. When designing and performing risk assessment procedures in accordance with paragraphs 102L and 102R, the practitioner shall consider information from the practitioner's procedures regarding acceptance and continuance of the client relationship or the sustainability assurance engagement. (Ref: Para. A321)

104. The engagement leader and other key members of the engagement team, and any key practitioner's external experts, shall discuss the susceptibility of the disclosures to material misstatement, whether due to fraud or error, and the application of the applicable criteria to the entity's facts and circumstances. The engagement leader shall determine which matters are to be communicated to members of the engagement team and to any practitioner's external experts not involved in the discussion. (Ref: Para. A322-A323)

Understanding the Sustainability Matters and the Sustainability Information

105. The practitioner shall obtain an understanding of the sustainability matters and the sustainability information, including the characteristics of events or conditions that could give rise to material misstatement of the disclosures. (Ref: Para. A324–A327)

Determining the Suitability of the Applicable Criteria

106. The practitioner shall determine whether the applicable criteria are suitable for the engagement circumstances, including that they exhibit the characteristics in paragraph 77. (Ref: Para. A202-A204, A328-A342)

Understanding the Entity's Reporting Policies

107. The practitioner shall obtain an understanding of the entity's reporting policies and the reason for any changes thereto. (Ref: Para. A2, A199, A342A)

107A. The practitioner shall evaluate whether the entity's reporting policies are appropriate and consistent with: (Ref: Para. A2, A342A-A342B)

(a) The applicable criteria; and

(b) Criteria used in the relevant industry.

Understanding the Entity and Its Environment

108. The practitioner shall obtain an understanding of the entity and its environment, including:

(a) The nature of the entity's operations, legal and organizational structure, ownership and governance, and business model; (Ref: Para. A343-A344)

(b) The reporting boundary and activities within the reporting boundary; and (Ref: Para. A345)

(c) Goals, targets, or strategic objectives related to sustainability matters and measures used to assess the entity's performance or determine management compensation. (Ref: Para. A346)

Understanding the Legal and Regulatory Framework

109. The practitioner shall obtain an understanding of: (Ref: Para. A347-A349)

(a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates, in the context of the entity's sustainability information; and

(b) How the entity is complying with that framework.

Inquiries and Discussion with Appropriate Parties

110. The practitioner shall make inquiries of appropriate parties and, when appropriate, others within the entity regarding whether: (Ref: Para. A350-A351)

   (a) They have knowledge of any fraud or suspected fraud or identified or suspected non-compliance with laws and regulations affecting the sustainability information; and

   (b) The entity has an internal audit function and, if so, make further inquiries to obtain an understanding of the activities and main findings, if any, of the internal audit function with respect to the sustainability information.

Understanding the Components of the Entity's System of Internal Control

Limited Assurance	**Reasonable Assurance**
111L. The practitioner shall obtain an understanding, through inquiry, of the components of the entity's system of internal control relevant to the sustainability matters and the preparation of the sustainability information, in accordance with paragraphs 112L, 113L, 114L, 115 and 118L. (Ref: A352-A357)	111R. The practitioner shall obtain an understanding, through inquiry and other procedures, of the components of the entity's system of internal control relevant to the sustainability matters and the preparation of the sustainability information, in accordance with paragraphs 112R, 113R, 114R, 115, and 117R. (Ref: A352-A354, A356-A357)

The Control Environment

Limited Assurance	**Reasonable Assurance**
112L. The practitioner shall obtain an understanding of the entity's control environment relevant to the sustainability matters and the preparation of the sustainability information. (Ref: Para. A358, A360-A361)	112R. The practitioner shall obtain an understanding of the entity's control environment relevant to the sustainability matters and the preparation of the sustainability information, including evaluating whether: (Ref: Para. A358 - A361) (a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; (b) The control environment provides an appropriate foundation for the other components of the system of internal control considering the nature and complexity of the entity; and (c) Control deficiencies identified in the control environment undermine the

	other components of the system of internal control.

The Entity's Risk Assessment Process

Limited Assurance	**Reasonable Assurance**
113L. The practitioner shall obtain an understanding of the results of the entity's risk assessment process relevant to the sustainability matters and the preparation of the sustainability information. (Ref: Para. A362, A364, A366)	113R. The practitioner shall obtain an understanding of the entity's risk assessment process relevant to the sustainability matters and the preparation of the sustainability information, including: (Ref: Para. A362-A366) (a) Understanding the entity's process for: (i) Identifying risks relevant to sustainability information reporting objectives; (ii) Assessing the significance of those risks, including the likelihood of their occurrence; and (iii) Addressing those risks; (b) Understanding the results of the entity's risk assessment process; and (c) Based on the understanding in (a) and (b), evaluating whether the entity's risk assessment process is appropriate to the entity's circumstances.

The Entity's Process for Monitoring the System of Internal Control

Limited Assurance	**Reasonable Assurance**
114L. The practitioner shall obtain an understanding of the results of the entity's process to monitor the system of internal control relevant to the sustainability matters and the preparation of the sustainability information. (Ref: Para. A367-A368)	114R. The practitioner shall: (a) Obtain an understanding of: (Ref: Para. A367-A368) (i) The entity's process to monitor the system of internal control relevant to the sustainability matters and the preparation of the sustainability information; and (ii) The results thereof; and

Limited Assurance	**Reasonable Assurance**
	(b) Based on this understanding, evaluate whether the entity's process to monitor the system of internal control relevant to the sustainability matters and the preparation of the sustainability information is appropriate to the entity's circumstances. (Ref: Para. A369R-A374R)

The Information System and Communication

115. The practitioner shall obtain an understanding of the entity's information system and communication relevant to the sustainability matters and the preparation of the sustainability information, including: (Ref: Para. A375-A379)

    (a) The entity's process to identify sustainability information to be reported. (Ref: Para. A334A-A334C, A380-A382)

    (b) How information from external sources, such as service organizations or other organizations in the entity's value chain, is recorded, processed, corrected as necessary, and incorporated into the sustainability information. (Ref: Para. A383)

    (c) For estimates and forward-looking information, how the entity identifies the relevant methods, assumptions or sources of data, and the need for changes in them, that are appropriate in the context of the applicable criteria.

116. Based on the practitioner's understanding of the information system and communication in accordance with paragraph 115, the practitioner shall evaluate whether the entity's information system appropriately supports the preparation of the sustainability information in accordance with the applicable criteria. (Ref: Para. A384)

Control Activities

117R. The practitioner shall obtain an understanding of control activities by identifying: (Ref: Para. A385-A390)

    (a) Controls for which the practitioner plans to obtain evidence by testing their operating effectiveness, which shall include:

        (i) Controls that address risks for which substantive procedures alone do not provide sufficient appropriate evidence; or

        (ii) If applicable, any complementary user entity controls identified in an assurance report of another practitioner that are determined to be relevant to the user entity in accordance with paragraph 52.

    (b) Based on the controls identified in (a), the IT applications and the other aspects of the entity's IT environment that are subject to risks arising from the use of IT;

    (c) The entity's general IT controls that address risks arising from the use of IT identified in (b); and

(d) Other controls that the practitioner considers are appropriate to identify and assess the risks of material misstatement at the assertion level for disclosures and design further procedures responsive to those assessed risks.

Design and Implementation of Controls

Limited Assurance	**Reasonable Assurance**
118L. If the practitioner plans to obtain evidence by testing the operating effectiveness of controls, the practitioner shall obtain an understanding of: (Ref: Para. A385-A390, A397L) (a) The controls the practitioner plans to test, including if applicable, any complementary user entity controls identified in the assurance report of another practitioner that are determined to be relevant to the user entity in accordance with paragraph 52; and (b) The entity's general IT controls that address risks arising from the use of IT related to the controls identified in (a). by: (Ref: Para. A391-A396) (a) Evaluating whether the control is designed effectively to address the risk of material misstatement for the disclosure, or effectively designed to support the operation of other controls; and (b) Determining whether the control has been implemented by performing procedures in addition to inquiry of the entity's personnel.	118R. The practitioner shall obtain an understanding of each control identified in accordance with paragraph 117R(a), (c), and (d) by: (Ref: Para. A391-A396) (a) Evaluating whether the control is designed effectively to address the risk of material misstatement at the assertion level, or effectively designed to support the operation of other controls; and (b) Determining whether the control has been implemented by performing procedures in addition to inquiry of the entity's personnel.

Identifying Control Deficiencies

119. Based on the practitioner's understanding of the components of the entity's system of internal control, the practitioner shall consider whether one or more control deficiencies have been identified. (Ref: Para. A398-A401)

Identifying and Assessing the Risks of Material Misstatement

Limited Assurance	Reasonable Assurance
120L. The practitioner shall identify and assess the risks of material misstatement at the disclosure level as a basis for designing and performing procedures whose nature, timing and extent: (Ref: Para. A402-A412, A413AL, A414) (a) Are responsive to the assessed risks of material misstatement; and (b) Allow the practitioner to obtain limited assurance about whether the sustainability information is prepared, in all material respects, in accordance with the applicable criteria.	120R. The practitioner shall identify and assess the risks of material misstatement at the assertion level for the disclosures as a basis for designing and performing procedures whose nature, timing and extent: (Ref: Para. A402-A403, A405-A406, A408-A413R, A414-A415R) (a) Are responsive to the assessed risks of material misstatement; and (b) Allow the practitioner to obtain reasonable assurance about whether the sustainability information is prepared, in all material respects, in accordance with the applicable criteria.

121R. Due to the unpredictable way in which management is able to override controls, the practitioner shall treat risks of management override of controls as risks of material misstatement due to fraud and thus risks of material misstatement at the upper end of the spectrum of risk. (Ref: Para. A415R)

Evaluating the Evidence Obtained from the Risk Assessment Procedures

122. The practitioner shall determine whether the 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 practitioner shall perform additional risk assessment procedures until evidence has been obtained to provide such a basis. (Ref: Para. A416)

Documentation

123. The practitioner shall include in the engagement documentation:

(a) The engagement team discussion in accordance with paragraph 104, and the significant decisions reached;

(b) Key elements of the practitioner's understanding, inquiries and discussion in accordance with paragraphs 105-117R;

(c) The evaluation of the design of identified controls, and determination of whether such controls have been implemented, in accordance with paragraph 118L, if applicable, and paragraph 118R; and

(d) The identified and assessed risks of material misstatement, in accordance with paragraphs 120L and 120R.

Responding to Risks of Material Misstatement

Designing and Performing Further Procedures

Limited Assurance	Reasonable Assurance
124L. The practitioner shall design and perform further procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement, whether due to fraud or error, at the disclosure level. (Ref: Para. A286-A289, A417-A421)	124R. The practitioner shall design and perform further procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement, whether due to fraud or error, at the assertion level for the disclosures. (Ref: Para. A286-A289, A417-A421)

125. In designing and performing further procedures, the practitioner shall: (Ref: Para. A421-A424)

(a) Consider the reasons for the assessment given to the risks of material misstatement;

(b) Consider whether the practitioner intends to obtain evidence about the operating effectiveness of controls in determining the nature, timing and extent of other procedures; and

(c) Obtain more persuasive evidence the higher the practitioner's assessment of risk.

Overall Responses

Limited Assurance	Reasonable Assurance
126L. The practitioner shall design and implement overall responses to address the risks of material misstatement if the practitioner identifies: (Ref: Para. A425-A426) (a) Control deficiencies in the control environment that undermine the other components of the system of internal control; (b) Fraud or suspected fraud or non-compliance or suspected non-compliance with laws and regulations; or (c) Risks of material misstatement pervasively throughout the sustainability information.	126R. The practitioner shall design and implement overall responses to address the risks of material misstatement if: (Ref: Para. A425-A426) (a) The practitioner's evaluation of the control environment indicates that: (i) Management, with the oversight of those charged with governance, has not created and maintained a culture of honesty and ethical behavior; (ii) The control environment does not provide an appropriate foundation for the other components of the system of internal control considering the nature and complexity of the entity; or (iii) Control deficiencies identified in the control environment undermine the other components of the system of internal control

Limited Assurance	Reasonable Assurance
	(b) The practitioner identifies fraud or suspected fraud or non-compliance or suspected non-compliance with laws and regulations; or (c) The practitioner identifies risks of material misstatement pervasively throughout the sustainability information.

Responding to Identified or Suspected Fraud or Non-Compliance with Laws and Regulations

127. The practitioner shall respond appropriately to fraud or suspected fraud, or non-compliance or suspected non-compliance with laws and regulations, identified during the engagement by obtaining: (Ref: Para. A427)

    (a) An understanding of the nature of the act and the circumstances in which it occurred; and

    (b) Further information to evaluate the possible effect on the sustainability information.

128. If the practitioner suspects there may be instances of fraud or non-compliance with laws and regulations, the practitioner shall discuss the matter, unless prohibited by law or regulation, with the appropriate level of management and, where appropriate, those charged with governance. (Ref: Para. A428-A429)

129. The practitioner shall evaluate the implications of identified or suspected fraud or non-compliance with laws and regulations for the assurance engagement, including the practitioner's risk assessment procedures and the reliability of written representations, and take appropriate action. (Ref: Para. A430)

Tests of Controls

130. If the practitioner intends to obtain evidence about the operating effectiveness of controls identified in accordance with paragraphs 117R or 118L, the practitioner shall design and perform tests of controls by: (Ref: Para. A431-A432)

    (a) Performing inquiry and other procedures to obtain evidence about the operating effectiveness of the controls, including:

        (i) How the controls were applied at relevant times during the period to which the sustainability information relates;

        (ii) The consistency with which they were applied; and

        (iii) By whom or by what means they were applied.

    (b) Determining whether the controls to be tested depend upon other controls and, if so, whether it is necessary to obtain evidence supporting the effective operation of those indirect controls.

131. The practitioner shall test controls for the appropriate period for which the practitioner intends to obtain evidence about the operating effectiveness of those controls, subject to paragraph 132.

132. If the practitioner obtains evidence about the operating effectiveness of controls during an interim period and intends to extend the conclusions of those tests of controls for the remaining period,

the practitioner shall obtain evidence about the operating effectiveness of those controls for the period subsequent to the interim period.

133. If the practitioner plans to use evidence from a previous sustainability assurance engagement about the operating effectiveness of controls, the practitioner shall establish the continuing relevance of the evidence by obtaining evidence about whether significant changes in those controls have occurred subsequent to the previous engagement. The practitioner shall obtain this evidence by performing inquiry, combined with observation or inspection, to confirm the understanding of those specific controls, and (Ref: Para. A433-A434)

    (a) If there have not been changes that affect the continuing relevance of the evidence from the previous engagement, the practitioner shall test the controls at least once in every third engagement, and shall test some controls in each engagement.

    (b) If there have been changes that affect the continuing relevance of the evidence from the previous engagement, the practitioner shall test the controls in the current engagement.

134. If the practitioner plans to obtain evidence about the operating effectiveness of controls over a risk of material misstatement for which the assessment of risk is close to the upper end of the spectrum of risk, the practitioner shall test those controls in the current period.

135. When evaluating the operating effectiveness of controls, the practitioner shall evaluate whether misstatements detected through performing other procedures indicate that controls are not operating effectively. The absence of misstatements detected by other procedures, however, does not provide evidence that controls being tested are effective.

136. If deviations from controls that the practitioner tests are detected, the practitioner shall make specific inquiries to understand these matters and their potential consequences and shall determine whether:

    (a) The tests of controls that have been performed provide sufficient appropriate evidence about the operating effectiveness of those controls;

    (b) Additional tests of controls are necessary; or

    (c) The potential risks of material misstatement need to be addressed by performing substantive procedures.

Substantive Procedures

137R. The further procedures required by paragraph 124R shall include substantive procedures that are responsive to each risk for which the assessment of that risk is close to the upper end of the spectrum of risk. (Ref: Para. A405)

138R. Irrespective of the assessed risks of material misstatement, the practitioner shall consider the need to design and perform substantive procedures for disclosures that, in the practitioner's judgment, are material. (Ref: Para. A436R-A436AR)

139R. The practitioner shall consider whether external confirmation procedures are to be performed. (Ref: Para. A437-A438)

140. If substantive procedures are performed at an interim date and the practitioner intends to extend the conclusions of those substantive procedures for the remaining period, the practitioner shall perform: (Ref: Para. A439-A440)

    (a) Substantive procedures, combined with tests of controls for the period subsequent to the interim period; or

(b) If the practitioner determines that it is sufficient, substantive procedures only that provide a reasonable basis for extending the conclusions to the period subsequent to the interim period.

Analytical Procedures

Limited Assurance	Reasonable Assurance
141L. If designing and performing analytical procedures, the practitioner shall: (Ref: Para. A441-A442) (a) Determine the suitability of particular analytical procedures, considering the reasons for the assessment of the risks of material misstatement at the disclosure level; and (b) Develop an expectation about recorded quantities or ratios. (Ref: Para. A443L)	141R. If designing and performing analytical procedures, the practitioner shall (Ref: Para. A441-A442): (a) Determine the suitability of particular analytical procedures for given assertions, considering the reasons for the assessment of risks of material misstatement and evidence from other procedures, if any, for these assertions; and (b) Develop an expectation about recorded quantities or ratios that is sufficiently precise to identify possible material misstatements.
142L. If analytical procedures identify fluctuations or relationships that are inconsistent with other relevant information or that differ significantly from the expected result, the practitioner shall make inquiries of management about such differences. The practitioner shall consider the responses to these inquiries to determine whether additional procedures are necessary in the circumstances.	142R. If analytical procedures identify fluctuations or relationships that are inconsistent with other relevant information or that differ significantly from expected quantities or ratios, the practitioner shall investigate such differences by (a) Inquiring of management and obtaining additional evidence relevant to management's responses; and (b) Performing other procedures as necessary in the circumstances.

Sampling

143. If the practitioner uses sampling as a means for selecting items for testing, the practitioner shall: (Ref: Para. A444)

(a) Consider the purpose of the procedure and the characteristics of the population from which the sample will be drawn;

(b) Determine a sample size sufficient to reduce sampling risk to an appropriately low level; and

(c) Select the sample, perform procedures on the items selected, and evaluate the results.

Estimates and Forward–Looking Information

Limited Assurance	Reasonable Assurance
145L. In responding to assessed risks of material misstatement relating to disclosures involving estimates or forward-looking information the practitioner shall: (Ref: Para. A450L) (a) Evaluate whether: (i) Management has appropriately applied the requirements of the applicable criteria relevant to estimates or forward-looking information; and (ii) The methods for developing estimates or forward-looking information are appropriate and have been applied consistently, and (iii) Changes, if any, in reported estimates or forward-looking information, or changes from the prior period in the method used for developing estimates or forward-looking information, are appropriate in the circumstances; and (b) Consider whether other procedures are necessary in the circumstances.	145R. In responding to assessed risks of material misstatement relating to disclosures involving estimates or forward-looking information, the practitioner shall: (Ref: Para. A445-A449) (a) Evaluate whether management has appropriately applied the requirements of the applicable criteria relevant to estimates or forward-looking information; and (b) Undertake one or more of the following: (i) Test how management developed the estimate or forward-looking information and the related disclosure(s), and the information on which the estimate or forward-looking information is based. In doing so, the practitioner shall evaluate whether: a. The method has been appropriately selected and applied, and any changes from prior periods are appropriate; (Ref: Para. A451R, A454) b. The assumptions used, including any changes from prior periods, are appropriate; and (Ref: Para. A452R-A454) c. The data, including any changes from prior periods, are appropriate; (Ref: Para. A453R, A454) (ii) Develop a point estimate or a range to evaluate management's estimate. For this purpose, the practitioner shall: (Ref: Para. A455R-A456AR) a. Evaluate whether the methods, assumptions or

Limited Assurance	Reasonable Assurance
	data used are appropriate in the context of the criteria. b. When the practitioner develops a range: i. Determine that the range includes only amounts that are supported by sufficient evidence and have been evaluated by the practitioner to be reasonable; and ii. Design and perform further procedures to obtain sufficient appropriate evidence regarding the assessed risk of material misstatement relating to the disclosures in the sustainability information that describe the uncertainty. (iii) Obtain evidence from events occurring up to the date of the practitioner's report.

Revising the Risk Assessment in a Reasonable Assurance Engagement

146R. If the practitioner becomes aware of a matter or obtains new information that is inconsistent with the evidence on which the practitioner originally based the identification and assessment of the risks of material misstatement at the assertion level for the disclosures, the practitioner shall:

(a) Revise, if necessary, the assessment of the risks of material misstatement, and

(b) Perform additional procedures to obtain further evidence to enable the practitioner to express a reasonable assurance conclusion. (Ref: Para. A457R)

Determining Whether Additional Procedures Are Necessary in a Limited Assurance Engagement

147L. If the practitioner becomes aware of a matter that causes the practitioner to believe the sustainability information may be materially misstated, the practitioner shall design and perform additional procedures to obtain further evidence until the practitioner is able to: (Ref: Para A458L-A462L)

(a) Conclude that the matter(s) is not likely to cause the sustainability information to be materially misstated; or

(b) Determine that the matter(s) causes the sustainability information to be materially misstated.

The Entity's Process for Assembling the Sustainability Information

Limited Assurance	**Reasonable Assurance**
148L. The practitioner's procedures shall include the following procedures related to the entity's process for assembling the sustainability information: (Ref: Para. A463) (a) Agreeing or reconciling the sustainability information with the underlying records; and (b) Obtaining, through inquiry of management, an understanding of material adjustments made during the course of preparing the sustainability information and considering whether additional procedures are necessary in the circumstances.	148R. The practitioner's procedures shall include the following procedures related to the entity's process for assembling the sustainability information: (Ref: Para. A463) (a) Agreeing or reconciling the sustainability information with the underlying records; and (b) Obtaining evidence about material adjustments made during the course of preparing the sustainability information.
	149R. In responding to the risk of management override of controls in accordance with paragraph 121R, the practitioner shall design and perform the following procedures: (a) Test the appropriateness of adjustments made by management in the process for assembling the sustainability information; (b) Make inquiries of individuals involved in the sustainability reporting process about their knowledge of inappropriate or unusual activity relating to adjustments to sustainability information; and (c) Determine whether other procedures are needed in addition to those in paragraphs (a)-(b) above, in order to

Limited Assurance	Reasonable Assurance
	respond to the risks of management override of controls. (Ref: Para. A464R)
150L. For group sustainability information, the practitioner shall design and perform further procedures to respond to the assessed risks of material misstatement arising from the aggregation process. Such procedures shall include: (a) Obtaining, through inquiry of management, an understanding of how management has aggregated the information; (b) Determining that all entities have been included in the sustainability information as required by the applicable criteria; and (c) Considering whether management's judgments made in the aggregation process give rise to indicators of possible management bias.	150R. For group sustainability information, the practitioner shall design and perform further procedures to respond to the assessed risks of material misstatement arising from the aggregation process. Such procedures shall include: (a) Obtaining an understanding of how management has aggregated the information; (b) Determining that all entities have been included in the sustainability information as required by the applicable criteria; and (c) Evaluating whether management's judgments made in the aggregation process give rise to indicators of possible management bias.

Documentation

151. The practitioner shall include in the engagement documentation:

(a) The overall responses in accordance with paragraphs 126L and 126R and the reasons for such responses.

(b) The results of the further procedures, including the conclusions where these are not otherwise clear.

(c) Identified or suspected fraud or non-compliance with laws and regulations and the procedures performed, the significant professional judgments made, and the conclusions reached thereon; and

(d) When applicable, conclusions reached about whether it is appropriate to use evidence about the operating effectiveness of controls obtained in previous engagements.

Accumulation and Consideration of Identified Misstatements

Accumulation of Identified Misstatements

152. The practitioner shall accumulate misstatements identified during the engagement, other than those that are clearly trivial. (Ref: Para. A465-A471)

153. The practitioner shall: (Ref: Para. A472-A475)

(a) Consider whether identified misstatements, either individually or in aggregate, may be due to fraud; and

(b) Respond appropriately if there are indicators that there may be material misstatements due to fraud.

Consideration of Identified Misstatements as the Engagement Progresses

154. The practitioner shall determine whether the approach to the engagement needs to be revised if: (Ref: Para. A476)

(a) The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the engagement, could be material; or

(b) The misstatements accumulated during the engagement may, in the aggregate, result in the sustainability information being materially misstated.

Communicating and Correcting Misstatements

155. The practitioner shall communicate to management, on a timely basis, all misstatements accumulated during the assurance engagement, and shall request management to correct those misstatements. (Ref: Para. A477)

156. If, at the practitioner's request, management has examined the sustainability information and corrected misstatements that were detected, the practitioner shall perform additional procedures with respect to the work performed by management to determine whether material misstatements remain.

157. If management refuses to correct some or all of the misstatements communicated by the practitioner, the practitioner shall obtain an understanding of management's reasons for not doing so and shall consider that understanding when forming the practitioner's conclusion. (Ref: Para. A478)

Evaluating the Effect of Uncorrected Misstatements

158. Prior to evaluating the effect of uncorrected misstatements, the practitioner shall consider whether the results of procedures performed and evidence obtained indicate that materiality needs to be revised.

159. The practitioner shall determine whether uncorrected misstatements are material, individually or in the aggregate. In making this determination, the practitioner shall consider the size and nature of the misstatements, and the particular circumstances of their occurrence. (Ref: Para. A479-A492)

Documentation

160. The practitioner shall include in the engagement documentation:

(a) All misstatements accumulated during the engagement, other than those that are clearly trivial, and whether they have been corrected (paragraphs 152 and 155); and

(b) The practitioner's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion (paragraph 159).

Evaluating the Description of Applicable Criteria

161. The practitioner shall evaluate whether the sustainability information adequately references or describes the applicable criteria and the sources of those criteria. (Ref: Para. A493-A495)

Subsequent Events

162. The practitioner shall: (Ref: Para. A496-A498L)

(a) Perform procedures to identify events occurring up to the date of the assurance report that may have an effect on the sustainability information and the assurance report, and

(b) Evaluate the sufficiency and appropriateness of evidence obtained about whether such events are appropriately reflected in that sustainability information in accordance with the applicable criteria.

163. The practitioner shall respond appropriately to facts that become known to the practitioner after the date of the assurance report, that, had they been known to the practitioner at that date, may have caused the practitioner to amend the assurance report. (Ref: Para. A499)

Written Representations from Management and Those Charged with Governance

164. The practitioner shall request from management and, where appropriate, those charged with governance a written representation: (Ref: Para. A500-A501)

(a) That they have fulfilled their responsibility for the preparation of the sustainability information, including comparative information where appropriate, in accordance with the applicable criteria, as set out in the terms of the engagement;

(b) That they have provided the practitioner with all relevant information and access as agreed in the terms of the engagement and reflected all relevant matters in the sustainability information;

(c) Whether they believe the effects of uncorrected misstatements are immaterial, individually and in the aggregate, to the sustainability information. A summary of such items shall be included in, or attached to, the written representation;

(d) Whether they believe that significant assumptions used in making estimates and preparing forward-looking information are appropriate;

(e) That they have communicated to the practitioner all deficiencies in internal control relevant to the engagement that are not clearly trivial of which they are aware;

(f) Whether they have disclosed to the practitioner their knowledge of any fraud or suspected fraud or identified or suspected non-compliance with laws and regulations where the fraud or non-compliance could have a material effect on the sustainability information; and

(g) That they adjusted the sustainability information for or disclosed all events occurring subsequent to the date of the sustainability information and for which the applicable criteria require adjustment or disclosure.

165. If, in addition to the required representations, the practitioner determines that it is necessary to obtain one or more written representations to support other evidence relevant to the sustainability information, the practitioner shall request them.

166. When written representations relate to matters that are material to the sustainability information, the practitioner shall:

(a) Evaluate their reasonableness and consistency with other evidence obtained, including other representations (oral or written); and

(b) Consider whether those making the representations can be expected to be well-informed on those matters.

167. The date of the written representations shall be as near as practicable to, but not after, the date of the assurance report.

168. If one or more of the requested written representations are not provided or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations, or that the written representations are otherwise not reliable, the practitioner shall:

    (a) Discuss the matter with management and, where appropriate, those charged with governance;

    (b) Reevaluate the integrity of those from whom the representations were requested or received and evaluate the effect that this may have on the reliability of representations (oral or written) and evidence in general; and

    (c) Take appropriate actions, including determining the possible effect on the conclusion in the assurance report.

169. The practitioner shall disclaim a conclusion on the sustainability information or withdraw from the engagement, when withdrawal is possible under applicable law or regulation, if:

    (a) The practitioner concludes that there is sufficient doubt about the integrity of the person(s) providing the written representations required by paragraphs 164(a) and (b) that written representations in these regards are not reliable; or

    (b) The entity does not provide the written representations required by paragraphs 164(a) and (b).

Other Information

Obtaining the Other Information

170. The practitioner shall: (Ref: Para. A502-A505)

    (a) Identify the other information by determining, through discussion with management, the document or documents expected to be issued that will contain the sustainability information and the assurance report thereon, and the entity's planned manner and timing of the issuance of such document(s); and

    (b) Make arrangements with management to obtain in a timely manner prior to the date of the assurance report, the final version of such document(s).

Reading and Considering the Other Information

171. The practitioner shall read the other information obtained prior to the date of the assurance report and, in doing so shall: (Ref: Para. A506-A507)

    (a) Consider whether there is a material inconsistency between the other information and the sustainability information;

    (b) Consider whether there is a material inconsistency between the other information and the practitioner's knowledge obtained during the assurance engagement, in the context of evidence obtained and conclusions reached in the engagement; and

    (c) Remain alert for indications that the other information, not related to the sustainability information or to the practitioner's knowledge obtained during the engagement, appears to be materially misstated.

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

172. If the practitioner identifies that a material inconsistency appears to exist or becomes aware that the other information appears to be materially misstated, the practitioner shall discuss the matter with management and, if necessary, perform other procedures to conclude whether:

    (a) A material misstatement of the other information exists;

    (b) A material misstatement of the sustainability information exists; or

    (c) The practitioner's understanding of the entity and its environment needs to be updated.

173. If the other information includes the entity's financial statements subject to audit and the practitioner identifies that a material inconsistency appears to exist between those financial statements and the sustainability information, or becomes aware that the financial statements appear to be materially misstated, the practitioner shall also communicate the matter to the auditor of the entity's financial statements, unless prohibited by law or regulation, or professional requirements.

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

174. If the practitioner concludes that a material misstatement of the other information exists, the practitioner shall request management to correct the other information. If management: (Ref: Para. A508-A509)

    (a) Agrees to make the correction, the practitioner shall determine that the correction is made; or

    (b) Refuses to make the correction, the practitioner shall communicate the matter to those charged with governance and request that the correction be made.

175. If the practitioner concludes that a material misstatement exists in the other information and it is not corrected after communicating with those charged with governance, the practitioner shall take appropriate action, including: (Ref: Para. A508-A509)

    (a) Considering the implications for the assurance report and communicating with those charged with governance about how the practitioner plans to address the material misstatement in the assurance report; or (Ref: Para. A510)

    (b) If withdrawal is possible under applicable law or regulation, withdrawing from the engagement. (Ref: Para. A511)

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

176. If, as a result of performing the procedures in paragraph 171, the practitioner concludes that a material misstatement of the sustainability information exists, or the practitioner's understanding of the entity and its environment needs to be updated, the practitioner shall respond appropriately. (Ref: Para. A512)

Forming the Assurance Conclusion

Evaluating the Evidence Obtained

177. The practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained, including evidence from the work performed by a practitioner's external expert, another

practitioner or internal audit function, and, if necessary in the circumstances, attempt to obtain further evidence. In making this evaluation, the practitioner shall: (Ref: Para. A513-A516)

(a) Evaluate whether the evidence obtained meets the intended purpose of the procedures; and

(b) Consider all evidence obtained, including evidence that is consistent or inconsistent with other evidence, and regardless of whether it appears to corroborate or to contradict the disclosures.

178. The practitioner shall evaluate whether judgments and decisions made by management in the estimates made and assumptions used in preparing the sustainability information, including with respect to forward-looking information, even if they are individually reasonable, are indicators of possible management bias. When indicators of possible management bias are identified, the practitioner shall evaluate the implications for the assurance engagement. Where there is intention to mislead, management bias is fraudulent in nature.

179. If the practitioner obtains evidence that is inconsistent with other evidence, the practitioner shall: (Ref: Para. A517-A520)

(a) Determine what modifications or additions to procedures are necessary to understand and address the inconsistency; and

(b) Consider the effect, if any, on other aspects of the assurance engagement.

Concluding

180. The practitioner shall form a conclusion about whether the sustainability information is free from material misstatement, whether due to fraud or error. In forming that conclusion, the practitioner shall consider the practitioner's evaluation in paragraphs 177 and 178 regarding the sufficiency and appropriateness of evidence obtained and the determination in paragraph 159 of whether uncorrected misstatements are material, individually or in the aggregate. (Ref: Para. A521)

181. When the principles of fair presentation are embodied in the applicable criteria, the evaluation required by paragraph 180 shall also include consideration of: (Ref: Para. A522-A523)

(a) The overall presentation, structure, and content of the sustainability information; and

(b) When appropriate in the context of the criteria, the wording of the practitioner's conclusion, or other engagement circumstances, whether the sustainability information represents the sustainability matters in a manner that achieves fair presentation.

181x. If sustainability information prepared in accordance with a fair presentation framework does not achieve fair presentation, the practitioner shall discuss the matter with management and, depending on the requirements of the applicable framework and how the matter is resolved, shall determine whether it is necessary to modify the conclusion in the assurance report in accordance with paragraph 200.

181A. If the sustainability information is prepared in accordance with compliance criteria, the practitioner is not required to evaluate whether the sustainability information achieves fair presentation. However, if the practitioner concludes that such sustainability information is misleading, the practitioner shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the practitioner's report.

Scope Limitation

182. If the practitioner is unable to obtain sufficient appropriate evidence, a scope limitation exists, and the practitioner shall either: (Ref: Para. A524-A525)

   (a) Express a qualified conclusion;

   (b) Disclaim a conclusion; or

   (c) Withdraw from the engagement, if withdrawal is possible under applicable law or regulation, as appropriate.

Taking Overall Responsibility for Managing and Achieving Quality

183. Prior to dating the assurance report, the engagement leader shall:

   (a) Take responsibility for determining whether relevant ethical requirements, including independence, have been fulfilled.

   (b) Determine, through review of engagement documentation and discussion with the engagement team, that sufficient appropriate evidence has been obtained to support the conclusions reached and for the assurance report to be issued.

   (c) Review the sustainability information and the assurance report, to determine that the report to be issued will be appropriate in the circumstances.

   (d) Determine that:

      (i) The engagement leader's involvement has been sufficient and appropriate throughout the engagement such that the engagement leader has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement; and (Ref: Para. A526-A528)

      (ii) The nature and circumstances of the engagement, any changes thereto, and the firm's related policies or procedures have been taken into account in complying with the requirements of this ISSA.

   (e) If the engagement is subject to an engagement quality review, determine that the engagement quality review has been completed.

Documentation

184. The practitioner shall include in the engagement documentation:

   (a) The basis for the engagement leader's determination in accordance with paragraph 183(b) that sufficient appropriate evidence has been obtained, including:

      (i) The determination in accordance with paragraph 50(d) that the work of another practitioner is adequate for the practitioner's purposes;

      (ii) The evaluation in accordance with paragraph 57 that the work of a practitioner's external expert is adequate for the practitioner's purposes;

      (iii) The determination in accordance with paragraph 59(e) that the work of the internal audit function is adequate for the practitioner's purposes; and

      (iv) If the practitioner identified information that was inconsistent with their final conclusion regarding a significant matter and how the practitioner addressed the inconsistency (see paragraph 179); and (Ref: Para. A529)

(b) The basis for the engagement leader's determination in accordance with paragraph 183(d) that the engagement leader's involvement has been sufficient and appropriate throughout the engagement. (Ref: Para. A530)

Preparing the Assurance Report

185. The assurance report shall be in writing and shall contain a clear expression of the practitioner's reasonable assurance opinion or limited assurance conclusion about the sustainability information. (Ref: Para. A531-A532)

186. The practitioner's conclusion shall be clearly separated from information or explanations that are not intended to affect the practitioner's conclusion, including any:

(a) Emphasis of Matter paragraphs;

(b) Other Matter paragraphs;

(c) Findings related to particular aspects of the engagement;

(d) Recommendations; or

(e) Additional information included in the assurance report.

The wording used shall make it clear that an Emphasis of Matter, Other Matter, findings, recommendations or additional information is not intended to detract from the practitioner's conclusion. (Ref: Para. A531-A532)

Assurance Report Content

187. The assurance report shall include at a minimum the following basic elements: (Ref: Para. A533, A560-A562)

(a) A title that clearly indicates the report is an independent practitioner's limited, reasonable or combined limited and reasonable assurance report. (Ref: Para. A534)

(b) An addressee. (Ref: Para. A535)

(c) The practitioner's conclusion in the first section of the assurance report, which: (Ref: Para. A536-A546)

(i) Includes a heading reflecting the type of conclusion provided, either:

a. For unmodified conclusions, "Reasonable Assurance Opinion," "Limited Assurance Conclusion," or appropriate headings for an assurance report for a combined reasonable assurance and limited assurance engagement; or

b. For modified conclusions, the heading in a. above shall be prefixed with "Qualified," "Adverse," or "Disclaimer of" as appropriate, and, for an assurance report for a combined reasonable and limited assurance engagement, clear identification of which opinion(s) or conclusion(s) is modified;

(ii) Identifies the entity whose sustainability information has been subject to the assurance engagement;

(iii) Identifies or describes the level of assurance, either reasonable or limited or different levels of assurance for different parts of the sustainability information, obtained by the practitioner; (Ref: Para. A536)

(iv) Identifies or describes the sustainability information subject to the assurance engagement, including, if appropriate, the sustainability matters and how that information is reported; (Ref: Para. A537-A538))

(v) Specifies the date of, or period or periods covered by the sustainability information;

(vi) Expresses a conclusion, which: (Ref: Para. A539L-A541)

a. For reasonable assurance, shall be expressed in a positive form, that the sustainability information is prepared or fairly presented, in all material respects, in accordance with the applicable criteria; or

b. For limited assurance, shall be expressed in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe that the sustainability information is not prepared or not fairly presented, in all material respects, in accordance with the applicable criteria;

(vii) Identifies the applicable criteria, whether framework criteria, entity-developed criteria or both, and, for entity-developed criteria, where it is located; (Ref: A542-A545)

(viii) The conclusion in paragraph 187(c)(vi) shall be phrased in terms of: (Ref: Para. A539L-A541)

a. The sustainability information and the applicable criteria; or

b. A statement made by the appropriate party(ies); and

(ix) When appropriate, the conclusion shall inform the intended users of the context in which the practitioner's conclusion is to be read. (Ref: Para. A546)

(d) The basis for conclusion directly following the Conclusion section, with the heading "Basis for Opinion" for a reasonable assurance report, "Basis for Conclusion" for a limited assurance report, or appropriate heading(s) for an assurance report for a combined reasonable and limited assurance engagement that:

(i) States that the engagement was conducted in accordance with ISSA 5000 *General Requirements for Sustainability Assurance Engagements*; (Ref: Para. A547)

(ii) For a limited assurance engagement, states that:

a. The procedures in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and

b. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed;

(iii) Refers to the section of the assurance report that describes the practitioner's responsibilities in accordance with this ISSA (see paragraph 187(h));

(iv) States that the practitioner complies with the independence and other ethical requirements of:

a. The IESBA Code related to sustainability assurance engagements; or

b. Other professional requirements or requirements in law or regulation, and shall:

i. Identify those requirements; and

ii. Disclose the name of the appropriate authority that has determined such requirements to be at least as demanding as the provisions of the IESBA Code related to sustainability assurance engagements;

(iv)A. If the relevant ethical requirements require the practitioner to publicly disclose when the practitioner applied independence requirements specific to sustainability assurance engagements of certain entities, the statement in accordance with part (iv) above shall indicate that the practitioner is independent of the entity in accordance with the independence requirements applicable to the sustainability assurance engagements of those entities; (Ref: Para. A548)

(v) States that the firm of which the practitioner is a member applies:

a. ISQM 1; or

b. Other professional requirements, or requirements in law or regulation, and shall:

i. Identify those requirements; and

ii. Disclose the name of the appropriate authority that has determined such requirements to be at least as demanding as ISQM 1;

(vi) States whether the practitioner believes that the evidence the practitioner has obtained is sufficient and appropriate to provide a basis for the practitioner's conclusion; and

(vii) If the practitioner expresses a modified conclusion, provides a description of the matter(s) giving rise to the modification.

(e) Where applicable, a section with a heading "Other Information," containing the matters in accordance with paragraph 199.

(f) A section with the heading "Responsibilities for the Sustainability Information" that:

(i) States that management or those charged with governance, as appropriate, is responsible for: (Ref: Para. A549-A550)

a. The preparation and, if applicable, fair presentation of the sustainability information in accordance with the applicable criteria; and; (Ref: Para. A551)

b. Designing, implementing and maintaining such internal controls that management determines is necessary to enable the preparation of sustainability information in accordance with the applicable criteria that is free from material misstatement, whether due to fraud or error; and

(ii) If those responsible for oversight of the process to prepare the sustainability information are different from those who fulfill the responsibilities described in (f)(i), identifies those responsible for oversight. (Ref: Para. A550)

(g) If applicable, a section with the heading "Inherent Limitations in Preparing the Sustainability Information" that describes any significant inherent limitations associated with the measurement or evaluation of the sustainability matters against the applicable criteria, including inherent limitations relating to forward-looking information included in the sustainability information. (Ref: Para. A489, A552-A553A and A572)

(h) A section with the heading "Practitioner's Responsibilities" that states that: (Ref: Para. A549)

(i) The objective of the practitioner is to plan and perform the assurance engagement to obtain limited or reasonable assurance, as applicable, about whether the sustainability information is free from material misstatement, whether due to fraud or error, and to issue an assurance report that includes a conclusion (for limited assurance) or opinion (for reasonable assurance);

(ii) Misstatements can arise from fraud or error, and:

a. Are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of intended users taken on the basis of the sustainability information; or

b. If materiality is defined or described differently in the applicable criteria, include such definition or description;

(iii) The practitioner exercises professional judgment and maintains professional skepticism throughout the engagement;

(iv) The practitioner performs risk assessment procedures, including obtaining:

a. For limited assurance: an understanding of internal controls relevant to the engagement to identify and assess the risks of material misstatement, whether due to fraud or error, at the disclosure level, but not for the purpose of providing a conclusion on the effectiveness of the entity's internal control. If the limited assurance report includes a conclusion on the effectiveness of internal control, the practitioner shall omit the phrase that the practitioner's consideration of internal control is not for the purpose of providing a conclusion on the effectiveness of the entity's internal control; or

b. For reasonable assurance: an understanding of internal controls relevant to the engagement, to identify and assess the risks of material misstatement, whether due to fraud or error, at the assertion level for the disclosures, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. If the reasonable assurance report includes an opinion on the effectiveness of internal control, the practitioner shall omit the phrase that the practitioner's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;

(v) The practitioner designs and performs procedures:

a. For limited assurance: responsive to the assessed risks of material misstatement at the disclosure level; or

b. For reasonable assurance: responsive to the assessed risks of material misstatement at the assertion level for the disclosures;

(vi) The risk of not detecting a material misstatement due to fraud is higher than for one due to error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

(i) For limited assurance, a section, with the heading "Summary of Work Performed," that contains an informative summary of the work performed as a basis for the practitioner's conclusion. This section shall describe the nature, timing and extent of procedures performed sufficiently to enable users to understand the limited assurance the practitioner has obtained. (Ref: Para. A554-A558L)

(j) The practitioner's signature.

(k) The location in the jurisdiction where the engagement leader practices.

(l) The date of the assurance report. The assurance report shall be dated no earlier than the date on which: (Ref: Para. A559)

(i) The practitioner has obtained the evidence on which the practitioner's conclusion is based, including evidence that those with the recognized authority have asserted that they have taken responsibility for the sustainability information; and

(ii) When an engagement quality review is required in accordance with ISQM 1 or the firm's policies or procedures, the engagement quality review is complete.

Name of the Engagement Leader in the Assurance Report

188. When the assurance report on sustainability information is for a listed entity, the name of the engagement leader shall be included, unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. In the rare circumstances that the practitioner intends not to include the name of the engagement leader in the assurance report, the practitioner shall discuss this intention with those charged with governance to inform them of the practitioner's assessment of the likelihood and severity of a significant personal security threat. (Ref: Para. A563-A565)

Reference to a Practitioner's Expert in the Assurance Report

189. If the practitioner refers to the work of a practitioner's expert in the assurance report, the wording of that report shall not identify the expert, unless required by law or regulation, or otherwise imply that the practitioner's responsibility for the conclusion expressed in that report is reduced because of the involvement of that expert. (Ref: Para. A99, A566-A568)

Other Reporting Responsibilities

190. If the practitioner addresses other reporting responsibilities in the assurance report on the sustainability information that are in addition to the practitioner's responsibilities under this ISSA, these other reporting responsibilities shall be addressed in a separate section in the assurance report with a heading "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate to the content of the section. If these other reporting responsibilities address the same report elements as those presented under the reporting responsibilities required by this ISSA, the other reporting responsibilities may be presented in the same section as the related report elements required by this ISSA (Ref: Para. A569-A570)

191. If other reporting responsibilities are presented in the same section as the related report elements required by this ISSA, the practitioner's report shall clearly differentiate the other reporting responsibilities from the reporting that is required by this ISSA. (Ref: Para. A571)

192. If the assurance report contains a separate section that addresses other reporting responsibilities, the requirements of paragraph 181 shall be included under a section with a heading "[Limited, Reasonable, or Limited and Reasonable] Assurance Report on the Sustainability Information." The "Report on Other Legal and Regulatory Requirements" shall follow the "[Limited, Reasonable, or Limited and Reasonable] Assurance Report on the Sustainability Information." (Ref: Para. A571)

193. If the practitioner is required by law or regulation to use a specific layout or wording of the assurance report, the assurance report shall refer to this ISSA only if the assurance report includes, at a minimum, each of the elements identified in paragraphs 187 and 188.

Engagements Conducted in Accordance with Both ISSA 5000 and Other Assurance Standards

194. A practitioner may be required to conduct an assurance engagement in accordance with the assurance standards of a specific jurisdiction (the "other assurance standards"), and has additionally complied with this ISSA in the conduct of the engagement. If this is the case, the assurance report may refer to this ISSA in addition to the other assurance standards, but the practitioner shall do so only if:

(a) There is no conflict between the requirements in the other assurance standards and those in this ISSA that would lead the practitioner:

(i) to reach a different conclusion, or

(ii) not to include an Emphasis of Matter paragraph or Other Matter paragraph that, in the particular circumstances, is required by this ISSA; and

(b) The assurance report includes, at a minimum, each of the elements set out in paragraphs 187 and 188 when the practitioner uses the layout or wording specified by the other assurance standards. The assurance report shall identify such other assurance standards, including the jurisdiction of origin of the other assurance standards.

Unmodified Conclusion

Limited Assurance	**Reasonable Assurance**
195L. The practitioner shall express an unmodified limited assurance conclusion when the practitioner concludes, that, based on the procedures performed and evidence obtained, no matter(s) has come to the attention of the practitioner that causes the practitioner to believe that: (a) In the case of compliance criteria, the sustainability information is not prepared, in all material respects, in accordance with the applicable criteria; or (b) In the case of fair presentation criteria, the sustainability information is not fairly presented, in all material respects, in accordance with the applicable criteria.	195R. The practitioner shall express an unmodified reasonable assurance opinion when the practitioner concludes, that: (a) In the case of compliance criteria, the sustainability information is prepared, in all material respects, in accordance with the applicable criteria; or (b) In the case of fair presentation criteria, the sustainability information is fairly presented, in all material respects, in accordance with the applicable criteria.

Emphasis of Matter Paragraph and Other Matter Paragraph

196. If the practitioner considers it necessary to: (Ref: Para. A572-A575)

(a) Draw intended users' attention to a matter presented or disclosed in the sustainability information that, in the practitioner's judgment, is of such importance that it is fundamental to intended users' understanding of that information (an Emphasis of Matter paragraph); or

(b) Communicate a matter other than those that are presented or disclosed in the sustainability information that, in the practitioner's judgment, is relevant to intended users' understanding of the engagement, the practitioner's responsibilities or the assurance report (an Other Matter paragraph), and

this is not prohibited by law or regulation, the practitioner shall do so in a paragraph in the assurance report, with an appropriate heading, that clearly indicates the practitioner's conclusion is not modified in respect of the matter.

197. If the applicable criteria are designed for a specific purpose, the practitioner shall include an Emphasis of Matter paragraph that alerts readers to this fact, and that, as a result, the sustainability information may not be suitable for another purpose. (Ref: Para. A576-A577)

Other Information

198. If the practitioner has obtained the other information by the date of the assurance report, the assurance report shall include a separate section in accordance with paragraph 187(e), except when the practitioner disclaims a conclusion, in which case an "Other Information" section is not included. (Ref: Para. A578)

199. When the assurance report is required to include an Other Information section in accordance with paragraph 198, this section shall include:

(a) A statement that management or those charged with governance, as appropriate, is responsible for the other information;

(b) An identification of other information obtained by the practitioner prior to the date of the assurance report;

(c) A statement that the practitioner's conclusion does not cover the other information and, accordingly, that the practitioner does not provide a conclusion thereon; (Ref: Para. A578A)

(d) A description of the practitioner's responsibilities relating to reading, considering, and reporting on other information as required by this ISSA; and

(e) Either:

(i) A statement that the practitioner has nothing to report with respect to the other information; or

(ii) If the practitioner has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.

Modified Conclusion

200. The practitioner shall express a modified conclusion in the following circumstances:

(a) When, in the practitioner's professional judgment, a scope limitation exists, and the effect of the matter could be material. In such cases, the practitioner shall express a qualified conclusion or a disclaimer of conclusion. (Ref: Para. A579, A585L-A587)

(b) When, in the practitioner's professional judgment, the sustainability information is materially misstated. In such cases, the practitioner shall express a qualified conclusion or adverse conclusion. (Ref: Para. A580-A582, A585L-A587)

201. The practitioner shall express a qualified conclusion when, in the practitioner's professional judgment, the effects, or possible effects, of a matter are not so material and pervasive as to require an adverse conclusion or a disclaimer of conclusion. A qualified conclusion shall be expressed as being "except for" the effects, or possible effects, of the matter to which the qualification relates. (Ref: Para. A579-A580, A583-A586R)

202. If the practitioner expresses a modified conclusion because of a scope limitation, but is also aware of a matter(s) that causes the sustainability information to be materially misstated, the practitioner shall include in the assurance report a clear description of both the scope limitation and the matter(s) that causes that the sustainability information to be materially misstated. (Ref: Para. A579)

203. If a statement made by management, or those charged with governance, as appropriate, in the sustainability information has identified and properly described that the sustainability information is materially misstated, the practitioner shall either:

    (a) Express a qualified conclusion or adverse conclusion phrased in terms of the sustainability information and the applicable criteria; or

    (b) If specifically required by the terms of the engagement to phrase the conclusion in terms of a statement made by the appropriate party(ies), express an unqualified conclusion, but include an Emphasis of Matter paragraph in the assurance report referring to the statement made by the appropriate party(ies), that identifies and properly describes that the sustainability information is materially misstated.

Comparative Information

204. The practitioner shall determine whether the applicable criteria (or law or regulation) require comparative information to be included in the sustainability information and, if so, whether that comparative information is appropriately presented.

205. In determining whether the comparative information is appropriately presented, the practitioner shall evaluate whether: (Ref: Para. A588-A591)

    (a) The comparative information is consistent with the disclosures presented in the prior period and, if not, any inconsistencies are addressed in accordance with the applicable criteria; and

    (b) The criteria for measurement or evaluation of the sustainability information reflected in the comparative information are consistent with those applied in the current period or, if there have been changes, whether they have been properly applied and adequately disclosed.

206. If the comparative information is not referred to in the practitioner's assurance conclusion and was not subject to an assurance engagement in the prior period, the practitioner shall state that fact in an Other Matter paragraph. Such a statement does not, however, relieve the practitioner of the requirements in paragraphs 204-205. (Ref: Para. A591A-A592)

207. If the comparative information is not referred to in the practitioner's conclusion and was subject to an assurance engagement in the prior period, the practitioner shall state in an Other Matter paragraph: (Ref: Para. A591A-A592)

    (a) If the assurance engagement for the prior period had a different level of assurance or a different engagement scope than the current period, that fact and what those differences were; or

(b) If the assurance engagement for the prior period was conducted by a predecessor practitioner:

(i) That fact;

(ii) The type of conclusion provided by the predecessor practitioner;

(iii) If the conclusion was modified, the reasons for any modification; and

(iv) The date of that report.

208. Irrespective of whether the practitioner's conclusion refers to the comparative information, if the practitioner becomes aware that there may be a material misstatement of the comparative information presented the practitioner shall: (Ref: Para. A593)

(a) Discuss the matter with management and perform procedures appropriate in the circumstances;

(b) Consider the effect on the assurance report; and

(c) If the comparative information presented contains a material misstatement, and the comparative information has not been restated:

(i) When the practitioner's conclusion refers to the comparative information, the practitioner shall express a qualified conclusion or an adverse conclusion in the assurance report; or

(ii) When the practitioner's conclusion does not refer to the comparative information, the practitioner shall include an Other Matter paragraph in the assurance report describing the circumstances affecting the comparative information.

Documentation

Matters Arising After the Date of the Assurance Report

209. If, in exceptional circumstances, the practitioner performs new or additional procedures or draws new conclusions after the date of the assurance report, the practitioner shall document: (Ref: Para. A594)

(a) The circumstances encountered;

(b) The new or additional procedures performed, evidence obtained, and conclusions reached, and their effect on the assurance report; and

(c) When and by whom the resulting changes to engagement documentation were made and reviewed.

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

[APPLICATION MATERIAL AND APPENDICES (Clean)]

This Agenda Item contains the final ISSA 5000, *General Requirements for Sustainability Assurance Engagements* approved at the IAASB September 2024 meeting.

Application and Other Explanatory Material

Introduction

Sustainability Information (Ref: Para. 2-5)

A1. Sustainability information is often intended to give insight into sustainability-related risks and opportunities for users to understand and evaluate the impacts of sustainability matters on the entity or the entity's actual or potential impacts, positive or negative, on the environment, society or economy.

A2. The framework criteria determine the principles and concepts regarding the measurement or evaluation of sustainability matters. Although the framework may not specify how to measure or evaluate all sustainability matters, it ordinarily embodies sufficient broad principles that can serve as a basis for the entity to select and apply reporting policies that are consistent with the underlying concepts in, and meet the objectives of, the requirements of the framework.

A3. The entity's process to identify sustainability information to be reported, including the identification and selection of the sustainability matters and the reporting boundary, may be required by the sustainability reporting framework or entity-developed criteria. Such a process may be referred to as the entity's "materiality assessment," or "materiality process," among other terms, as the process involves the application of materiality in identifying which information relevant to the information needs of intended users is material for the purposes of reporting. Appendix 2 illustrates how the entity's process to identify sustainability information to be reported is considered by the practitioner throughout the engagement.

A4. As described in paragraph 79, in connection with the acceptance and continuance of the assurance engagement, the practitioner is required to obtain a preliminary knowledge about the sustainability information to be reported, and whether the scope of the engagement encompasses all or part of that sustainability information.

Premises in this ISSA (Ref: Para. 6-7)

A5. Law, regulation or professional requirements in a jurisdiction may specify relevant ethical requirements or requirements relating to quality management to be applied in the conduct of assurance engagements, and may provide guidance about what constitutes "at least as demanding" as the IESBA Code regarding relevant ethical requirements for assurance engagements, and ISQM 1 regarding a firm's responsibility for its system of quality management.

Ethical Requirements (Ref: Para. 6(a), 7)

A6. As explained in paragraph A58, the IESBA Code sets out the fundamental principles of ethics that establish the standards of behavior expected of an assurance practitioner and establishes the International Independence Standards. The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality, and professional behavior. Paragraph A59 describes the conceptual framework in the IESBA Code that an assurance practitioner is required to apply when addressing threats to compliance with the fundamental principles. Paragraphs A60-A61 describe matters that may give rise to potential threats to compliance and that may affect or influence the practitioner's independence.

A7. Paragraph A62 explains that professional requirements, or requirements in law or regulation, addressing compliance with relevant ethical requirements are at least as demanding as the provisions of the IESBA Code related to sustainability assurance engagements when they address the matters referred to in paragraphs A58-A61 and impose obligations that achieve the aims of the requirements set out in the IESBA Code related to such engagements.

Quality Management (Ref: Para. 6(b) and 7)

A8. As explained in paragraph A68, this ISSA has been written in the context of a range of measures taken to support the quality of assurance engagements. Such measures include a system of quality management implemented across the firm.

A9. Paragraph A69 explains the responsibilities of the firm to design, implement and operate a system of quality management for assurance engagements, and paragraph A70 describes the components addressed by such a system that is designed in accordance with the requirements of ISQM 1.

A10. As explained in paragraph A73, professional requirements, or requirements in law or regulation that deal with the firm's responsibilities to design, implement, and operate a system of quality management are at least as demanding as ISQM 1 when they address all the matters referred to in paragraphs A69-A71 and impose obligations on the firm that achieve the aims of the objectives and requirements of ISQM 1.

A11. In accordance with ISQM 1, the objective of the firm is to design, implement and operate a system of quality management that provides the firm with reasonable assurance that:

(a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and

(b) Engagement reports issued by the firm or engagement leaders are appropriate in the circumstances.

Scope of this ISSA

Types and Presentation of Sustainability Information (Ref: Para. 8)

A12. The sustainability information presented by an entity may be limited to certain matters, such as selected metrics, targets or key performance indicators. Alternatively, the sustainability information may cover many different aspects of topics as required by the sustainability reporting framework or by law or regulation, or that the entity chooses to present voluntarily.

A13. Sustainability information may be presented in different ways, for example, in a separate sustainability report issued by the entity, as part of the entity's annual report (e.g., a separately identified report within the annual report, as part of the management report or management commentary), in an integrated report, or through some other reporting mechanism. Depending on the applicable criteria, the sustainability information may be for a single entity, or may include information for entities that are part of a group or other entities in the reporting entity's value chain.

A14. In some circumstances, the sustainability reporting framework may permit sustainability information to be incorporated by reference from other sources, such as the audited financial statements or another section of a management report (i.e., a section other than that containing the sustainability information required to be reported). The information incorporated by reference may have been subject to an audit or an assurance engagement. If such information is within the scope of the sustainability assurance engagement, the practitioner responsible for the sustainability assurance engagement may intend to obtain evidence from the work performed by the financial statement auditor or another assurance practitioner. In these circumstances, the requirements in this ISSA addressing using the work of another practitioner apply, including the requirement to communicate, to the extent necessary in the circumstances, about the findings from another practitioner's work.

Reasonable and Limited Assurance Engagements (Ref: Para. 9)

A15. When the disclosures relate to a number of aspects of topics, separate conclusions may be provided on each aspect. Each conclusion is expressed in the form that is appropriate to either a reasonable assurance engagement or a limited assurance engagement. References in the ISSAs to the conclusion in the assurance report include each conclusion when separate conclusions are provided.

Definitions (Ref: Para.18)

Assertions

A17R. Assertions are used by practitioners to consider the different types of potential misstatements that may occur when identifying and assessing, and responding to, the risks of material misstatement in a reasonable assurance engagement. Examples of assertions are provided in paragraph A413R.

Component

A18. The framework criteria may specify that the sustainability information to be reported should be for the same reporting entity as the related financial statements (see also paragraph A36). For purposes of the ISSAs, components that include entities or business units required to be included in the reporting entity's group financial statements (e.g., subsidiaries of a parent entity) are referred to as group components. The framework criteria may also require the sustainability information to be extended to include information from other entities that are part of the reporting entity's upstream or downstream value chain. For purposes of the ISSAs, components that include such entities are referred to as value chain components.

Component Practitioner

A19. A component practitioner may comprise individuals from a network firm, a firm that is not a network firm, or another office within the practitioner's firm.

A20. In limited circumstances, the practitioner may be able to be sufficiently and appropriately involved in the work of another firm at a value chain component. For example, the reporting entity may have a direct business relationship with a supplier that allows management to arrange for the practitioner to obtain access to information at that entity or access to the firm that has performed work on that information. In those circumstances, if the practitioner intends to use such work and is able to be sufficiently and appropriately involved in the work, the other firm is a component practitioner for purposes of the ISSAs.

Criteria

A21. The criteria, particularly framework criteria, may include guidance about the sustainability matters (including the topics and aspects of topics) to be reported. The criteria also may establish how those sustainability matters are to be measured or evaluated, and how they are to be presented or disclosed.

Disclosure(s)

A22. The term “disclosure(s)” is used in this ISSA in the context of sustainability assurance engagements and refers to sustainability information about an aspect of a topic. Accordingly, it is not intended to have the same meaning as “financial statement disclosures” as defined or described in financial reporting frameworks.

A23. Appendix 1 explains the relationship between sustainability matters, sustainability information and the related disclosures. Disclosure(s) may include quantitative or qualitative information and can vary in form and length. Management’s disclosures provide a starting point in considering whether and how certain disclosures may be combined by the practitioner for the purpose of planning and performing the engagement (see also paragraphs A287-A289).

Engagement Leader

A24. The individual appointed as the engagement leader may be a partner or another senior staff member in the firm (e.g., a director or principal). Whether the individual is permitted to be an engagement leader in accordance with this ISSA depends on how the firm assigns responsibilities, and whether law, regulation or professional requirements include requirements that specify who may be permitted to accept responsibility for the engagement.

A25. The term engagement leader in this ISSA is the equivalent of “engagement partner” in ISQM 1.[1]

Engagement Risk

A26. Engagement risk does not refer to, or include, the practitioner’s business risks, such as loss from litigation, adverse publicity, or other events arising in connection with particular sustainability matters.

A27. In general, engagement risk can be represented by the following components:

(a) Risks that the practitioner does not directly influence, which consist of:

(i) The susceptibility of the sustainability information to a material misstatement before consideration of any related controls applied by the entity (inherent risk); and

(ii) The risk that a material misstatement that occurs in the sustainability information will not be prevented, or detected and corrected, on a timely basis by the entity’s internal control (control risk); and

(b) The risk that the practitioner does directly influence, which is the risk that the procedures performed by the practitioner will not detect a material misstatement (detection risk).

A28R. Reducing engagement risk to zero is very rarely attainable or cost-beneficial. Therefore, reasonable assurance is less than absolute assurance due to factors such as the following:

- The use of selective testing.
- The inherent limitations of internal control.

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1 ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements,* paragraph 16(c)

- The fact that much of the evidence available to the practitioner is persuasive rather than conclusive.
- The use of professional judgment in gathering and evaluating evidence and forming conclusions based on that evidence.
- In some cases, the characteristics of the sustainability matters (e.g., forward-looking information).

Engagement Team

A29. The engagement team includes personnel, which includes any internal experts, and, if applicable, component practitioners. Another practitioner is not part of the engagement team.

A30. Internal auditors who provide direct assistance refers to the use of internal auditors to perform procedures under the direction, supervision and review of the practitioner. Although they may perform procedures similar to those performed by the practitioner, such internal auditors are not independent of the entity as is required of the practitioner. They are therefore not members of the engagement team. In some jurisdictions, the practitioners may be prohibited, or restricted to some extent, by law or regulation from using the work of the internal audit function or using internal auditors to provide direct assistance.

Entity

A31. An example of an identifiable portion of a legal or economic entity is a single factory or other form of facility, such as a landfill site.

Firm

A32. The legal nature of the organization performing the assurance engagement may take many forms and may not be described as a firm.

Fraud

A33. Although some form of management bias is inherent in subjective decisions relating to sustainability information, when there is intention to mislead, management bias is fraudulent in nature.

A34. Paragraphs A325, A468 and A474 provide examples of matters related to material misstatements due to fraud or management bias in sustainability information, examples of where or how misstatements in sustainability information may arise and examples of misstatements due to fraud in sustainability information, respectively.

Group

A35. A single legal entity organized with branches or divisions is also a group for purposes of this ISSA if the sustainability information for those branches and divisions is included in the single legal entity's sustainability information through an aggregation process.

Group Sustainability Information

A36. The framework criteria may specify that the sustainability information to be reported should be for the same reporting entity as the related financial statements. For example, if consolidated financial statements are required to be prepared in accordance with the applicable financial reporting framework, then the sustainability information would include information for the same entities or business units included in the consolidated financial statements. The criteria may also require the sustainability information to be extended to include information from other entities that are part of the upstream or downstream value chain. Such sustainability information, including information from the value chain, is referred to as "group sustainability information" in the ISSAs.

Intended Users

A37. Examples of intended users include shareholders, investors, lenders and other creditors who may use sustainability information to make resource allocation decisions. Other intended users who may be interested in the sustainability information reported by the organization include consumers, taxpayers, employees, competitors, prudential authorities, central banks and bodies in charge of financial stability oversight, those granting public contracts, partners, suppliers, community, Indigenous Peoples, government, regulators, and interest groups.

A38. In some cases, there may be intended users other than those to whom the assurance report is addressed. The practitioner may not be able to identify all those who will read the assurance report, particularly when a large number of people have access to it. In such cases, particularly when possible users are likely to have a broad range of interests in the sustainability matters, intended users may be limited to major stakeholders with significant and common interests. Intended users may be identified in different ways, for example, by agreement between the practitioner and management or those charged with governance, or by law or regulation.

A39. In some cases, specific users (for example, lenders) may request the appropriate party(ies) to arrange for an assurance engagement to be performed on sustainability information that has been prepared using criteria that are designed for a specific purpose. When engagements use criteria that are designed for a specific purpose, paragraph 197 requires a statement alerting readers to this fact. In addition, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, this may be achieved by restricting the distribution or use of the assurance report (see paragraph A577).

Partner

A40. As noted in paragraph A32, the entity performing the assurance engagement may not be described as a firm. Therefore, the individual with authority to bind the organization with respect to the performance of the engagement may not carry the title of partner.

Reporting Boundary

A41. In some cases, framework criteria may specify the reporting boundary. In other circumstances, the reporting boundary may be determined by the entity, in which case the reporting boundary will be part of the entity-developed criteria. The reporting boundary may vary for different topics or aspects of topics (e.g., some key performance indicators may have different boundaries from other key performance indicators because of the nature of the sustainability matters).

A42. Although the entity's sustainability information and financial statements may relate to the same reporting entity, the reporting boundary for sustainability information may differ from the boundary for purposes of preparing financial statements. For example, the reporting boundary for sustainability information may include activities, operations, relationships, or resources up and down the entity's value chain. An entity's supply chain is part of the value chain.

Substantive Procedures

A43. Analytical procedures performed to respond to an assessed risk of material misstatement are substantive in nature and therefore this ISSA requires the practitioner to develop an expectation as the basis for evaluating the results of those procedures (see paragraphs 141L and 141R). Analytical procedures may also be used as risk assessment procedures to help identify inconsistencies, unusual events or conditions, and amounts, ratios, and trends that indicate matters that may have implications for the engagement. Unusual or unexpected relationships that are identified may assist the practitioner in identifying risks of material misstatement, including risks of material misstatement due to fraud.

Sustainability Information

A44. As explained in paragraph 2, sustainability information is information about sustainability matters and may cover a number of topics and aspects of those topics. Paragraph 2 also explains that law or regulation or sustainability reporting frameworks may describe sustainability matters, topics or aspects of topics in different ways. Examples of topics and aspects of topics include the following:

Topics	
Environmental	• Climate, including emissions • Energy, such as type of energy and consumption • Water and effluents, such as water consumption and water discharge • Biodiversity, such as impacts on biodiversity or habitats protected and restored
Social	• Labor practices, such as diversity and equal opportunity, training and education, and occupational health and safety • Human rights and community relations, such as local community engagement, impact assessments and development programs • Customer health and safety
Governance	• Monitoring, managing and overseeing sustainability matters and their related impacts
Aspects of Topics	
• Impact analysis, including magnitude of impact • Strategy and business model • Risks and opportunities • Innovation to address risks and opportunities • Financial effects arising from risks and opportunities • Risk management or mitigation • Governance • Metrics and key performance indicators • Targets • Internal control over monitoring and managing risk	

- Scenario analysis

A45. As explained in paragraph 5, the scope of the assurance engagement may not extend to the entirety of the sustainability information reported. Therefore, for purposes of the ISSAs, the term "sustainability information" is to be read as the information that is subject to assurance. Sustainability information not subject to the assurance engagement that is included in a document or documents containing the sustainability information subject to the assurance engagement and the assurance report thereon is other information.

Sustainability Matters

A46. Law or regulation or sustainability reporting frameworks may define or describe sustainability matters in different ways. Depending on the criteria, sustainability matters may address:

- The impacts on the entity's strategy, business model or performance.
- The impacts of the entity's activities, products and services on the environment, society or economy; or
- The entity's sustainability policies, plans, goals or targets.

A46A. In addition to impacts, the criteria may also refer to risks and opportunities (e.g., how sustainability-related risks and opportunities could reasonably be expected to affect the entity's prospects) or dependencies (e.g., resources and relationships throughout the entity's value chain that may affect the entity's strategy or business model).

Conduct of an Assurance Engagement in Accordance with the ISSAs

Complying with Standards that are Relevant to the Engagement (Ref: Para. 20)

A47. In some cases, another ISSA is also relevant to the engagement. Another ISSA is relevant to the engagement when that ISSA is in effect, the subject matter of the ISSA is relevant to the engagement, and the circumstances addressed by the ISSA exist.

A48. The ISAs[2] and ISREs[3] have been written for audits and reviews of historical financial information, respectively, and do not apply to other assurance engagements. They may, however, provide guidance in relation to the engagement process for practitioners undertaking a sustainability assurance engagement in accordance with this ISSA.

Text of an ISSA (Ref: Para. 21)

A49. ISSAs contain the objectives of the practitioner in following the ISSA, and requirements designed to enable the practitioner to meet those objectives. In addition, they contain related guidance in the form of application and other explanatory material, introductory material that provides context relevant to a proper understanding of the ISSA, and definitions.

A50. The objectives in an ISSA provide the context in which the requirements of the ISSA are set, and are intended to assist in:

(a) Understanding what is to be accomplished; and

(b) Deciding whether more needs to be done to achieve the objectives.

The proper application of the requirements of an ISSA by the practitioner is expected to provide a sufficient basis for the practitioner's achievement of the objectives. However, because the

[2] ISA, *International Standards on Auditing*

[3] ISRE, *International Standards on Related Services*

circumstances of assurance engagements vary widely, and all such circumstances cannot be anticipated in the ISSA, the practitioner is responsible for determining the procedures necessary to fulfill the requirements of relevant ISSAs, and to achieve the objectives stated therein. In the circumstances of an engagement, there may be particular matters that require the practitioner to perform procedures in addition to those required by relevant ISSAs to meet the objectives specified in those ISSAs.

A51. The requirements of ISSAs are expressed as "shall."

A52. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:

- Explain more precisely what a requirement means or is intended to cover.
- Include examples that may be appropriate in the circumstances.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in an ISSA. Where appropriate, additional considerations specific to public sector entities or smaller or less complex entities are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in the ISSAs. They do not, however, limit or reduce the responsibility of the practitioner to apply and comply with the requirements in an ISSA.

A53. Definitions are provided in an ISSA to assist in the consistent application and interpretation of the ISSA and are not intended to override definitions that may be established for other purposes, whether by laws, regulations or otherwise.

A54. Appendices form part of the application and other explanatory material. The purpose and intended use of an appendix are explained in the body of the related ISSA or within the title and introduction of the appendix itself.

Complying with Relevant Requirements (Ref: Para. 22-23)

A55. Although some procedures are required only for reasonable assurance engagements, they may nonetheless be appropriate in some limited assurance engagements.

A56. The requirements of this ISSA and any other relevant ISSAs are designed to enable the practitioner to achieve the objectives specified in the ISSA, and thereby the overall objectives of the practitioner. Accordingly, other than in exceptional circumstances, the practitioner is required to comply with each requirement that is relevant in the circumstances of the assurance engagement.

Documentation of a Departure from a Relevant Requirement (Ref: Para. 24)

A57. The engagement documentation requirements apply only to requirements that are relevant in the circumstances. A requirement is not relevant only in the cases when the requirement is conditional and the condition does not exist (for example, the requirement to modify the practitioner's conclusion when there is an inability to obtain sufficient appropriate evidence, and there is no such inability).

Acceptance and Continuance of the Assurance Engagement

Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 26(a), 34-37)

A58. The IESBA Code sets out the fundamental principles of ethics that establish the standards of behavior expected of an assurance practitioner and establishes the International Independence

Standards. The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality and professional behavior. The IESBA Code also specifies the required approach for a professional accountant to comply with the fundamental principles and, when applicable, the International Independence Standards. Law or regulation in a jurisdiction may also contain provisions addressing ethical requirements, including independence, such as privacy laws affecting the confidentiality of information.

A59. The IESBA Code provides a conceptual framework which an assurance practitioner is required to apply when addressing threats to compliance with the fundamental principles, including:

(a) Identifying threats to compliance with the fundamental principles. Threats fall into one or more of the following categories:

(i) Self-interest;

(ii) Self-review;

(iii) Advocacy;

(iv) Familiarity; and

(v) Intimidation;

(b) Evaluating whether the threats identified are at an acceptable level; and

(c) If the identified threats to compliance with the fundamental principles are not at an acceptable level, addressing them by eliminating the circumstances that create the threats, applying safeguards to reduce threats to an acceptable level, or withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.

A60. The IESBA Code sets out requirements and application material on various topics that may give rise to potential threats to compliance, including:

- Conflicts of interest.
- Professional appointments.
- Second opinions.
- Fees and other types of remuneration.
- Inducements, including gifts and hospitality.
- Custody of client assets.
- Responding to non-compliance with laws and regulations.

A61. The IESBA Code defines independence as comprising both independence of mind and independence in appearance. Independence safeguards the ability to form an assurance conclusion without being affected by influences that might compromise that conclusion. Independence enhances the ability to act with integrity, to be objective and to maintain an attitude of professional skepticism. The International Independence Standards in the IESBA Code address various matters that may affect or influence the practitioner's independence, including:

- Fees.
- Gifts and hospitality.
- Actual or threatened litigation.
- Financial interests.
- Loans and guarantees.

- Business relationships.
- Family and personal relationships.
- Recent service with an assurance client.
- Serving as a director or officer of an assurance client.
- Employment with an assurance client.
- Long association of personnel with an assurance client.
- Provision of non-assurance services to an assurance client.

A62. Professional requirements, or requirements in law or regulation, addressing compliance with relevant ethical requirements are at least as demanding as the provisions of the IESBA Code related to sustainability assurance engagements when they address all the matters referred to in paragraphs A58-A61 and impose obligations that achieve the aims of the requirements set out in the IESBA Code related to such engagements.

A63. An appropriate authority could be a national standard setter, regulator, or oversight body with responsibility for audit, assurance or related relevant ethical requirements, or a designated accreditation organization recognized by a public authority.

Considerations Specific to Public Sector Entities (Ref: Para. 26(a), 34)

A64. Statutory measures may provide safeguards for the independence of public sector practitioners. However, public sector practitioners or firms carrying out public sector assurance engagements may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach to promote compliance with paragraph 34. This may include, where the public sector mandate does not permit withdrawal from the engagement, disclosure through a public report of circumstances that have arisen that would, if they were in the private sector, lead the practitioner to withdraw.

Engagement Leader Responsibilities for Acceptance and Continuance (Ref: Para. 28)

A65. Under ISQM 1, for acceptance and continuance decisions, the firm is required to make judgments about the firm's ability to perform the engagement in accordance with professional requirements and applicable legal and regulatory requirements. The engagement leader may use the information considered by the firm in this regard in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and engagements are appropriate. If the engagement leader has concerns regarding the appropriateness of the conclusions reached, the engagement leader may discuss the basis for those conclusions with those involved in the acceptance and continuance process.

A66. If the engagement leader is directly involved throughout the firm's acceptance and continuance process, the engagement leader will be aware of the information obtained or used by the firm in reaching the related conclusions. Such direct involvement may also provide a basis for the engagement leader's determination that the firm's policies or procedures have been followed and that the conclusions reached are appropriate.

A67. When the firm is obligated by law or regulation to accept or continue an assurance engagement, the engagement leader may take into account information obtained by the firm about the nature and circumstances of the engagement.

Firm-level Quality Management (Ref: Para. 30)

A68. This ISSA has been written in the context of a range of measures taken to support the quality of sustainability assurance engagements. Such measures include:

- Competency requirements, such as education and experience, and ongoing continuing professional development as well as life-long learning requirements.
- A system of quality management implemented across the firm, i.e., ISQM 1, or professional requirements, or requirements in law or regulation, that are at least as demanding.
- When applicable, in accordance with ISQM 1, performance of engagement quality reviews in accordance with ISQM 2.
- A comprehensive set of ethical requirements, including detailed independence requirements, founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

A69. ISQM 1 deals with the firm's responsibilities to design, implement and operate a system of quality management for assurance engagements. It sets out the responsibilities of the firm for establishing quality objectives, identifying and assessing risks to the achievement of the quality objectives, and designing and implementing responses to address such risks, including certain specified responses. The specified responses in ISQM 1 include the firm's responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews. ISQM 2[4] deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.

A70. A system of quality management addresses the following eight components:

(a) The firm's risk assessment process;

(b) Governance and leadership;

(c) Relevant ethical requirements;

(d) Acceptance and continuance of client relationships and specific engagements;

(e) Engagement performance;

(f) Resources;

(g) Information and communication; and

(h) The monitoring and remediation process.

Firms or national requirements may use different terminology or frameworks to describe the components of the system of quality management.

A71. A firm's system of quality management includes establishing a monitoring and remediation process designed to:

- Provide the firm with relevant, reliable and timely information about the design, implementation, and operation of the system of quality management.
- Take appropriate actions to respond to identified deficiencies such that deficiencies are remediated by the firm on a timely basis.

[4] ISQM 2, *Engagement Quality Reviews*

A72. Ordinarily, the engagement team may depend on the firm's system of quality management unless:

- The engagement team's understanding or practical experience indicates that the firm's policies or procedures will not effectively address the nature and circumstances of the engagement; or
- Information provided by the firm or other parties about the effectiveness of such policies or procedures suggests otherwise.

For example, the engagement team may depend on the firm's system of quality management in relation to:

- Competence and capabilities of personnel through their recruitment and formal training.
- Independence through the accumulation and communication of relevant independence information.
- Maintenance of client relationships through the firm's policies or procedures for acceptance and continuance of client relationships and assurance engagements.
- Adherence to regulatory and legal requirements through the firm's monitoring and remediation process.

A73. Professional requirements, or requirements in law or regulation, that deal with the firm's responsibilities to design, implement, and operate a system of quality management are at least as demanding as ISQM 1 when they address all the matters referred to in paragraphs A69-A71 and impose obligations on the firm that achieve the aims of the objectives and requirements of ISQM 1.

A74. An appropriate authority could be a national standard setter, regulator, or oversight body with responsibility for audit, assurance or related relevant ethical requirements, or a designated accreditation organization recognized by a public authority.

Engagement-level Quality Management

Overall Responsibility for Managing and Achieving Quality (Ref: Para. 31-32)

A75. Taking overall responsibility for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement may be demonstrated by the engagement leader in various ways, including:

- Involvement in the acceptance and continuance process to be able to determine that the firm's policies or procedures for the acceptance and continuance of client relationships and assurance engagements have been followed;
- The engagement being planned and performed (including appropriate direction and supervision of engagement team members) in accordance with professional standards or requirements and applicable legal and regulatory requirements;
- Reviews being performed in accordance with the firm's policies or procedures and reviewing the engagement documentation on or before the date of the assurance report;
- Appropriate engagement documentation being maintained to provide evidence of achievement of the practitioner's objectives, and that the engagement was performed in accordance with this ISSA and relevant legal and regulatory requirements; and
- Appropriate consultation being undertaken by the engagement team on difficult or contentious matters.

A76. The engagement leader remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ISSA. The term "the engagement leader shall take responsibility for…" is used for those requirements that the engagement leader is permitted to assign the design or performance of procedures, tasks or actions to appropriately skilled or suitably experienced members of the engagement team. For requirements in this ISSA that state "the engagement leader shall…", this ISSA expressly intends that the requirement or responsibility be fulfilled by the engagement leader. In such circumstances, the engagement leader may obtain information from the firm or other members of the engagement team in fulfilling the requirement.

A77. ISQM 1 requires the firm to establish quality objectives that address the firm's governance and leadership that supports the design, implementation and operation of the system of quality management. The engagement leader's responsibility for managing and achieving quality is supported by a firm culture that demonstrates a commitment to quality. A culture that demonstrates a commitment to quality is further shaped and reinforced by the engagement team members as they demonstrate expected behaviors when performing the engagement.

A78. The actions of the engagement leader, and appropriate messages to the other members of the engagement team, emphasize the fact that quality is essential in performing an assurance engagement, and the importance to the quality of the assurance engagement of:

(a) Performing work that complies with professional standards and relevant legal and regulatory requirements.

(b) Complying with the firm's policies or procedures as applicable.

(c) Issuing a report for the engagement that is appropriate in the circumstances.

(d) The engagement team's ability to raise concerns without fear of reprisals.

A79**.** Being sufficiently and appropriately involved throughout the engagement when procedures, tasks or actions have been assigned to other members of the engagement team may be demonstrated by the engagement leader in different ways, including:

- Informing assignees about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof; and to provide any other necessary instructions and relevant information.
- Direction and supervision of the assignees.
- Review of the assignees' work to evaluate the conclusions reached, in addition to the requirements in paragraphs 46-49.

Application of Firm Policies or Procedures by Members of the Engagement Team (Ref: Para. 32)

A80. Within the context of the firm's system of quality management, engagement team members from the firm are responsible for implementing the firm's policies or procedures that are applicable to the engagement. As engagement team members from another firm are neither partners nor staff of the engagement leader's firm, they may not be subject to the firm's system of quality management or the firm's policies or procedures. Further, the policies or procedures of another firm may not be similar to that of the engagement leader's firm. For example, policies or procedures regarding direction, supervision and review may be different, particularly when the other firm is in a jurisdiction with a different legal system, language or culture than that of the engagement leader's firm. Accordingly, if the engagement team includes individuals from another firm, different actions may need to be taken by the firm or the engagement leader to implement the firm's policies or procedures in respect of the work of those individuals. For example, individuals who are not personnel may not be able to complete independence declarations directly on the firm's independence systems. The firm's policies or procedures may state that such individuals can provide evidence of their independence in other ways, such as written confirmation.

Characteristics of the Engagement Leader (Ref: Para. 33)

A81. ISQM 1 requires the firm to establish quality objectives that engagement team members are assigned to each engagement, including an engagement leader, who have appropriate competence and capabilities to consistently perform quality engagements.

A82. Sufficient sustainability competence provides the engagement leader with the ability to:

- Ask appropriate questions of a practitioner's expert and evaluate whether the answers are judged to be reasonable in the engagement circumstances;
- Evaluate a practitioner's expert's work and, to the extent necessary, integrate it with the work of the engagement team as a whole; and
- Take responsibility for the conclusions reached on the engagement.

A83. What constitutes sufficient sustainability competence depends on the engagement circumstances and differs from engagement to engagement. Whether the engagement leader has sufficient sustainability competence in order to accept responsibility for the conclusions reached on the engagement is a matter of professional judgment, and may involve consideration of factors such as:

- The judgment involved in evaluating whether the criteria that the practitioner expects to be applied in the preparation of the sustainability information are suitable for the engagement circumstances;
- The judgment involved in determining whether the sustainability information in the scope of the assurance engagement is appropriate;
- The nature and complexity of the sustainability matters;
- The extent to which the sustainability matters are capable of precise measurement or whether there is a high degree of measurement uncertainty that may need significant knowledge and judgment;
- The engagement leader's and engagement team's competence and previous experience in relation to sustainability matters.

Relevant Ethical Requirements, Including Those Related to Independence

Engagement Leader Responsibilities for Relevant Ethical Requirements (Ref: Para. 34-37)

A84. Open and robust communication between the members of the engagement team about relevant ethical requirements may also assist in:

- Drawing the attention of engagement team members to relevant ethical requirements that may be of particular significance to the assurance engagement; and
- Keeping the engagement leader informed about matters relevant to the engagement team's understanding and fulfillment of relevant ethical requirements and the firm's related policies or procedures.

A85. In accordance with ISQM 1, the firm's responses to address the quality risks in relation to relevant ethical requirements, including those related to independence for engagement team members, include policies or procedures for identifying, evaluating and addressing threats to compliance with the relevant ethical requirements.

A86. Appropriate actions the firm may take to address threats to compliance with relevant ethical requirements may include, for example:

- Following the firm's policies or procedures regarding breaches of relevant ethical requirements, including communicating to or consulting with the appropriate individuals so that appropriate action can be taken, including as applicable, disciplinary action(s).
- Communicating with those charged with governance.
- Communicating with regulatory authorities or professional bodies. In some circumstances, communication with regulatory authorities may be required by law or regulation.
- Seeking legal advice.
- Withdrawing from the assurance engagement, when withdrawal is possible under applicable law or regulation.

Assurance Skills and Techniques, Professional Skepticism and Professional Judgment

Professional Skepticism (Ref: Para. 39)

A87. Professional skepticism is an attitude that includes being alert to, for example:

- Evidence that is inconsistent with other evidence obtained.
- Information that calls into question the reliability of responses to inquiries or information intended to be used as evidence.
- Circumstances that suggest the need for procedures in addition to those required by relevant ISSAs.
- Conditions that may indicate likely misstatement.
- Conditions that may indicate possible fraud.

A88. Professional skepticism is necessary for the critical assessment of evidence. This includes questioning inconsistent evidence and the reliability of responses to inquiries and information intended to be used as evidence. It also includes consideration of the sufficiency and appropriateness of evidence obtained in the light of the circumstances. Maintaining professional skepticism throughout the engagement is necessary if the practitioner is, for example, to reduce the risks of:

- Overlooking unusual circumstances.
- Overgeneralizing when drawing conclusions from observations.
- Using inappropriate assumptions in determining the nature timing, and extent of the procedures, and evaluating the results thereof.

A89. Unless the engagement involves assurance about whether documents are genuine, the practitioner may accept records and documents as genuine unless the practitioner has reason to believe the contrary. Nevertheless, the practitioner is required by paragraph 89 of this ISSA to consider the reliability of information intended to be used as evidence.

A90. The practitioner cannot be expected to disregard past experience of the honesty and integrity of those who provide evidence. Nevertheless, a belief that those who provide evidence are honest and have integrity does not relieve the practitioner of the need to maintain professional skepticism.

A91. Impediments to the exercise of professional skepticism at the engagement level may include, but are not limited to:

- Budget constraints, which may discourage the use of sufficiently experienced or technically qualified resources, including experts, when needed.
- Tight deadlines, which may negatively affect the behavior of those who perform the work as well as those who direct, supervise and review that work.
- Lack of cooperation or undue pressures imposed by management, which may negatively affect the engagement team's ability to resolve complex or contentious issues.
- Insufficient understanding of the entity and its environment, its system of internal control and the applicable criteria.
- Difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others, which may cause the engagement team to bias the selection of sources of evidence and seek evidence from sources that are more easily accessible.
- Overreliance on automated tools and techniques, which may result in the engagement team not critically assessing evidence.
- Circumstances when there is no one generally accepted way in which to measure or evaluate the sustainability matters and report the sustainability information, which may result in practitioners being less willing to question management's approach.
- Complexity of the engagement. The larger, more complex and more diverse the entity (e.g., the greater its geographical spread, and the more dependent it is on a long and diverse supply chain), the more challenging it may be to understand and evaluate:
  - Whether the sustainability matters are appropriate in the engagement circumstances, and
  - How much prominence should be given to each disclosure in the context of the sustainability information as a whole.

A92. Possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level may include:

- Remaining alert to changes in the nature or circumstances of the engagement that necessitate requesting additional or different resources for the engagement.
- Explicitly alerting the engagement team to instances or situations when vulnerability to unconscious or conscious biases may be greater (e.g., areas involving greater judgment).
- Changing the composition of the engagement team, for example, requesting that more experienced individuals with greater skills or knowledge or specific expertise are assigned to the engagement.
- Involving more experienced members of the engagement team in more complex areas of the engagement or when dealing with members of management who are difficult or challenging to interact with.
- Involving members of the engagement team with specialized skills and knowledge or a practitioner's expert to assist the engagement team with complex or subjective areas of the engagement.
- Involving appropriate resources to perform procedures to obtain evidence about sustainability information related to group components and value chain components.

- Modifying the nature, timing and extent of direction, supervision or review, for example, by more in-person oversight on a more frequent basis or more in-depth reviews of certain working papers.
- Communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others from whom evidence may be sought.

Professional Judgment (Ref: Para. 40)

A93. Professional judgment is essential to the proper conduct of an assurance engagement. This is because interpretation of relevant ethical requirements and the ISSAs, and the informed decisions required throughout the engagement, cannot be made without the application of relevant training, knowledge, and experience to the facts and circumstances. Professional judgment is necessary in particular regarding decisions about:

- The presence of the preconditions for an assurance engagement.
- Materiality and engagement risk.
- The nature, timing and extent of procedures used to meet the requirements of this ISSA and any other relevant ISSAs and to obtain evidence, including where, and to what extent, it is necessary to perform procedures at entities across the entity's value chain.
- Evaluating whether sufficient appropriate evidence has been obtained, and whether more needs to be done to achieve the objectives of this ISSA and any other relevant ISSAs. In particular, in the case of a limited assurance engagement, professional judgment is required in evaluating whether a meaningful level of assurance has been obtained.
- The appropriate conclusions to draw based on the evidence obtained.
- The actions to take in exercising professional skepticism.
- Whether the engagement leader's involvement throughout the engagement has been sufficient and appropriate such that the engagement leader has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement.

A94. The distinguishing feature of the professional judgment expected of a practitioner is that it is exercised by a practitioner whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgments.

A95. The exercise of professional judgment is based on the facts and circumstances that are known by the practitioner. It needs to be exercised throughout the engagement and be appropriately documented. Professional judgment can be evaluated based on whether the judgment reached reflects a competent application of assurance and measurement or evaluation principles and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the practitioner up to the date of the practitioner's assurance report. Professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or sufficient appropriate evidence.

Engagement Resources (Ref: Para. 41)

A96. Resources include human, technological and intellectual resources. Human resources include members of the engagement team and, when applicable, a practitioner's external expert. Technological resources include technological tools that may allow the practitioner to manage the engagement more effectively and efficiently. Intellectual resources include, for example, assurance methodologies, implementation tools, assurance guides, model programs, templates, checklists or forms.

A97. In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, the engagement leader ordinarily may depend on the firm's related policies or procedures (including resources). For example, based on information communicated by the firm, the engagement leader may be able to depend on the firm's technological development, implementation and maintenance programs when using firm-approved technology to perform procedures.

Competence and Capabilities of the Engagement Team (Ref: Para. 42)

A98. When determining that the engagement team has the appropriate sustainability competence and competence and capabilities in assurance skills and techniques, the engagement leader may take into consideration such matters as the team's:

- Understanding of, and practical experience with, sustainability assurance engagements of a similar nature and complexity through appropriate training and participation.
- Understanding of professional requirements and applicable legal and regulatory requirements applicable to the engagement.
- Expertise in the sustainability matters relevant to the engagement.
- Expertise in IT used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the engagement.
- Knowledge of relevant industries in which the entity operates.
- Knowledge of laws, regulations or business practices relevant to the entity's operations in a particular jurisdiction.
- Ability to exercise professional skepticism and professional judgment.
- Understanding of the firm's policies or procedures.

A99. Sustainability assurance engagements may relate to a wide range of sustainability matters that require specialized skills and knowledge beyond those possessed by the engagement leader and other members of the engagement team and for which the work of a practitioner's expert is used. A practitioner's expert may be either a practitioner's internal expert (who is a member of the engagement team), or a practitioner's external expert. A practitioner's internal expert may be a partner or staff (i.e., personnel), including temporary staff, of the practitioner's firm or a network firm. A practitioner's expert may be needed to assist the practitioner in one or more areas.

Examples:

- Obtaining an understanding of the entity and its environment, including its internal control.
- Performing risk assessment procedures.
- Responding to risks, including determining and implementing overall responses to assessed risks of material misstatement of the sustainability information.
- Evaluating the sufficiency and appropriateness of evidence obtained in forming a conclusion on the sustainability information.

A100. Considerations when deciding whether to use a practitioner's expert may include:

- Whether management has used a management's expert in preparing the sustainability information (see paragraph A101).
- The nature and significance of the sustainability information, including its complexity.
- The assessed risks of material misstatement.
- The expected nature of procedures to respond to identified risks, including: the practitioner's knowledge of and experience with the work of experts in relation to such matters; and the availability of alternative sources of evidence.

A101. When management has used a management's expert in preparing the sustainability information, the practitioner's decision on whether to use a practitioner's expert may also be influenced by such factors as:

- The nature, scope and objectives of the management's expert's work.
- Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services.
- The extent to which management can exercise control or influence over the work of the management's expert.
- The management's expert's competence and capabilities.
- Whether the management's expert is subject to technical performance standards or other professional or industry requirements.
- Any controls within the entity over the management's expert's work.

A102. The more complex the engagement, including its geographical spread and the extent to which information is derived from the entity's value chain, the more necessary it may be to consider how the work of a practitioner's expert or another practitioner is to be integrated across the engagement.

Sufficient and Appropriate Involvement in the Work of a Firm Other than the Practitioner's Firm (Ref: Para. 43)

A103. Paragraph 31 requires the engagement leader to be sufficiently and appropriately involved throughout the engagement. Paragraphs A75 and A79 provide examples of ways in which the engagement leader may demonstrate sufficient and appropriate involvement in the engagement. When the practitioner intends to obtain evidence from using work that has been performed, or will be performed, by a firm other than the practitioner's firm, these examples may assist the engagement leader in determining whether it is possible for the engagement leader to be sufficiently and appropriately involved in that work.

A104. When work is performed in relation to sustainability information of a group component, there is a presumption that the practitioner would ordinarily be sufficiently and appropriately involved in that work.

A105. In certain circumstances, the practitioner may become aware that a separate engagement on sustainability information for a group component has been performed by a firm (including another office of the practitioner's firm or a network firm). For example, that firm may have performed a separate assurance engagement on greenhouse gas emissions of a subsidiary that are included in the group sustainability information. Although the practitioner is unable to be involved because the separate engagement has already been completed, the practitioner may still intend to obtain evidence from using the work of that other firm for the group sustainability assurance engagement. In these circumstances, the requirements in paragraphs 50-55 would apply, including determining whether the evidence obtained from that other practitioner's work is adequate for the practitioner's purposes. If a similar separate engagement is expected to be performed in subsequent years relating to that group component, the practitioner would be able to consider it in developing the overall strategy and engagement plan for the group engagement, including the involvement of that other firm as a component practitioner (see paragraph 95).

A106. An inability to be sufficiently and appropriately involved in the work of a firm other than the practitioner's firm may arise because the work has already been performed, the practitioner's access to the work of that firm is restricted by law or regulation, or the work relates to a value chain component and neither the entity's management nor the practitioner have any rights of access to that other firm's work. Similarly, if the extent of the engagement leader's involvement does not provide the basis for determining that the significant judgments made and the conclusions reached in relation to the work of a firm other than the practitioner's firm are appropriate, the engagement leader is ordinarily not able to conclude that they can be sufficiently and appropriately involved. The engagement leader may also take account of firm policies or procedures in making the determination in accordance with paragraph 43.

Insufficient or Inappropriate Resources Assigned or Made Available (Ref: Para. 44)

A107. The engagement leader's determination that the resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement, and the appropriate actions to take, are matters of professional judgment. For example, if an assurance software program provided by the firm has not incorporated new or revised procedures related to sustainability disclosures required by new or revised framework criteria, timely communication of such information to the firm enables the firm to take steps to update and reissue the software promptly or to provide an alternative resource that enables the engagement team to comply with the new regulation in the performance of the engagement.

A108. For a group sustainability assurance engagement, the engagement leader's determination about whether the resources assigned or made available are sufficient and appropriate may include considering whether there is a need to involve component practitioners with knowledge and experience of the laws, regulations, language or culture in certain jurisdictions.

A109. If the resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement and additional or alternative resources have not been made available, appropriate actions may include:

- Changing the planned approach to the nature, timing and extent of direction, supervision and review (see also paragraph 47).

- Discussing an extension to the entity's reporting deadlines with management or those charged with governance, when an extension is possible under applicable law or regulation.
- Following the firm's policies or procedures for resolving differences of opinion if the engagement leader does not obtain the necessary resources for the engagement.
- Following the firm's policies or procedures for withdrawing from the engagement, when withdrawal is possible under applicable law or regulation.

Using the Resources Assigned or Made Available (Ref: Para. 45)

A110. The firm's policies or procedures may include required considerations or responsibilities for the engagement team when using firm-approved technological tools to perform procedures and may require the involvement of individuals with specialized skills or expertise in evaluating or analyzing the output. The engagement team may be required, in accordance with the firm's policies or procedures, to use the firm's assurance methodology and specific tools and guidance. The engagement team may also consider whether the use of other intellectual resources is appropriate and relevant based on the nature and circumstances of the engagement, for example, an industry-specific assurance methodology or related guides and performance aids.

Direction, Supervision and Review

Engagement Leader's Responsibility for Direction, Supervision and Review (Ref: Para. 46)

A111. ISQM 1 requires that direction, supervision and review is planned and performed on the basis that the work performed by less experienced engagement team members is directed, supervised and reviewed by more experienced engagement team members.

A112. Direction and supervision of the engagement team and the review of their work are firm-level responses that are implemented at the engagement level, of which the nature, timing and extent may be further tailored by the engagement leader in managing the quality of the engagement. Accordingly, the approach to direction, supervision and review will vary from one engagement to the next, taking into account the nature and circumstances of the engagement. The approach will ordinarily include a combination of addressing the firm's policies or procedures and engagement specific responses.

A113. When an engagement is not carried out entirely by the engagement leader, or when the nature and circumstances of the engagement are more complex (e.g., when there are members of the engagement team spread across multiple jurisdictions), it may be necessary for the engagement leader to assign direction, supervision, and review to other members of the engagement team. However, as part of the engagement leader's overall responsibility for managing and achieving quality on the engagement and to be sufficiently and appropriately involved, the engagement leader is required to determine that the nature, timing and extent of direction, supervision and review is undertaken in accordance with paragraph 47. In such circumstances, personnel or members of the engagement team may provide information to the engagement leader to enable the engagement leader to make the determination required by paragraph 47.

Direction

A114. Direction of the engagement team may involve informing the members of the engagement team of their responsibilities, such as:

- Contributing to the management and achievement of quality at the engagement level through their personal conduct, communication and actions.

- Maintaining a questioning mind and being aware of unconscious or conscious biases in exercising professional skepticism when gathering and evaluating evidence.
- Addressing threats to the achievement of quality, and the engagement team's expected response. For example, budget constraints or resource constraints should not result in the engagement team members modifying planned procedures or failing to perform planned procedures.
- Fulfilling relevant ethical requirements.
- Understanding the objectives of the work to be performed and the detailed instructions regarding the nature, timing and extent of planned assurance procedures.
- The responsibilities of respective engagement team members to perform procedures, and of more experienced engagement team members to direct, supervise and review the work of less experienced engagement team members.

Supervision

A115. Supervision may include matters such as:

- Tracking the progress of the engagement, which includes monitoring:
    - The progress against the engagement plan;
    - Whether the objective of work performed has been achieved; and
    - The ongoing adequacy of assigned resources.
- Taking appropriate action to address issues arising during the engagement, including for example, reassigning planned procedures to more experienced engagement team members when issues are more complex than initially anticipated.
- Identifying matters for consultation or consideration by more experienced engagement team members during the engagement.
- Providing coaching and on-the-job training to help engagement team members develop skills or competencies.
- Creating an environment where engagement team members raise concerns without fear of reprisals.

Review

A116. Review of the engagement team's work consists of consideration of whether, for example:

- The work has been performed in accordance with the firm's policies or procedures, professional requirements and applicable legal and regulatory requirements.
- Significant matters have been raised for further consideration.
- Appropriate consultations have taken place and the resulting conclusions have been documented and implemented.
- There is a need to revise the nature, timing and extent of work performed.
- The work performed supports the conclusions reached and is appropriately documented.
- The evidence obtained is sufficient and appropriate to provide a basis for the practitioner's conclusion.
- The objectives of the procedures have been achieved.

Determining the Nature, Timing and Extent of Direction, Supervision and Review (Ref. Para. 47)

A117. The approach to the direction and supervision of the members of the engagement team and the review of their work provides support for the engagement leader in fulfilling the requirements of this ISSA, and in concluding that the engagement leader has been sufficiently and appropriately involved throughout the engagement in accordance with paragraph 183(d)(i).

A118. The approach to direction, supervision and review may be tailored depending on, for example:

- The engagement team member's previous experience with the entity and the subject matter.
- The complexity of the engagement.
- The assessed risks of material misstatement.
- The competence and capabilities of the individual engagement team members performing the work.
- The manner in which the reviews of the work performed are expected to take place (remote or in-person).
- The structure of the engagement team and the location of engagement team members.
- Whether engagement team members are from the practitioner's firm, a network firm, or a firm that is not a network firm.

Review of Engagement Documentation (Ref. Para. 48)

A119. Timely review of engagement documentation by the engagement leader at appropriate stages throughout the engagement enables significant matters to be resolved to the engagement leader's satisfaction on or before the date of the practitioner's report. The engagement leader need not review all engagement documentation.

A120. The engagement leader exercises professional judgment in identifying significant judgments made by the engagement team. The firm's policies or procedures may specify certain matters that are commonly expected to be significant judgments. Significant judgments may include matters related to planning and performing the engagement, as well as the conclusions reached by the engagement team.

Examples of significant judgments:

- Whether the scope of the sustainability information to be reported and the scope of the assurance engagement are appropriate in the circumstances.
- Matters related to planning the engagement, such as the consideration or determination of materiality.
- The composition of the engagement team, including personnel with expertise in one or more sustainability matters addressed in the engagement.
- The decision to involve a practitioner's expert, including the decision to involve an external expert.
- The engagement team's risk assessment procedures, including situations when the identification and assessment of the risks of material misstatement requires significant judgment by the engagement team.
- For a group sustainability assurance engagement:

- The proposed approach to the engagement for addressing where, and by whom, evidence needs to be obtained.
- Decisions about the involvement of component practitioners and using the work of another practitioner, including, for example, in areas of higher assessed risk of material misstatement of the sustainability information.

- Results of the procedures performed on areas of the engagement involving significant management judgment.
- The evaluation of the work performed by a practitioner's external expert or another practitioner, and conclusions drawn therefrom.
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
- The evaluation of matters that may affect the assurance report, including modification of the practitioner's conclusion.

A121. The engagement leader exercises professional judgment in determining other matters to review, for example based on:

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

Review of Formal Written Communications (Ref: Para. 49)

A122. The engagement leader uses professional judgment in determining which written communications to review, taking into account the nature and circumstances of the engagement. For example, it may not be necessary for the engagement leader to review communications between the engagement team and management in the ordinary course of the engagement.

Using the Work of Others

Using the Work of Another Practitioner (Ref: Para. 50-55)

A123. Using the work of another practitioner may include using work that has already been completed, or that is yet to be performed but will be completed prior to completion of the practitioner's engagement. Such work may specifically relate to sustainability matters or may be other assurance or non-assurance work that, in the practitioner's judgment, is relevant to the sustainability assurance engagement. The practitioner exercises professional judgment in determining whether the work of another practitioner is relevant to, and is appropriate for purposes of the practitioner's engagement, and the extent to which such work can be used in the circumstances. The extent of the practitioner's procedures to evaluate the work of another practitioner in accordance with paragraph 50 is influenced by:

- The overall significance of the work to the practitioner's engagement. For example, the greater the significance to the overall sustainability information of the disclosures for which the practitioner intends to obtain evidence from using the work of another practitioner, the more extensive the practitioner's procedures are likely to be, including communication with another practitioner and determining whether it is necessary to review additional documentation of the work of that practitioner in accordance with paragraph 54;

- The ability of the practitioner to obtain access to another practitioner and their work. For example, when the work of another practitioner relates to information from a value chain component, neither the reporting entity's management nor the practitioner may have rights of access to that other firm or its work. Paragraph A135 explains circumstances in which a limitation on scope may arise in relation to using the work of another practitioner; and
- Whether a one-to-many report of another practitioner is available (see paragraph 51).

A124. The guidance in paragraphs A136-A150 for using the work of a practitioner's expert may also be helpful when obtaining evidence from using the work of another practitioner, in particular, the considerations described in paragraphs A137 and A150.

Complying with relevant ethical requirements that apply to using the work of another practitioner (Ref: Para. 50(a))

A125. Relevant ethical requirements may include provisions addressing the fulfillment of the practitioner's ethical responsibilities related to using the work of another practitioner. These responsibilities may vary depending on whether the work performed by another practitioner is assurance or non-assurance work.

A126. Whether an engagement performed by another practitioner is an assurance engagement depends on the circumstances. Considerations that may be relevant in distinguishing an assurance engagement from a non-assurance engagement include:

- The nature of the engagement. For example, agreed-upon procedures engagements performed in accordance with International Standard on Related Services 4400[5] and consulting (or advisory) engagements are not assurance engagements.
- The nature of the procedures performed on the engagement. For example, a validation or verification engagement may be an assurance engagement if it is performed in accordance with recognized standards that enable the practitioner to design and perform procedures aimed at gathering sufficient appropriate evidence to support an assurance conclusion.
- The wording of the report of another practitioner. For example, the report for an assurance engagement includes the practitioner's opinion, conclusion or other form of assurance statement based on the procedures performed and evidence obtained. Reports that only provide the practitioner's findings would not be considered assurance engagements.

Evaluating the competence and capabilities of another practitioner (Ref: Para. 50(b))

A127. Determining whether another practitioner has the appropriate competence and capabilities is a matter of professional judgment and is influenced by the nature and circumstances of another practitioner's work. The sources described in paragraph A139 related to the work of a practitioner's expert may also be relevant when evaluating the competence and capabilities of another practitioner. Other factors that may be relevant include the consistency or similarity of laws and regulations, language and culture. When another practitioner is another firm within the same network as the practitioner's firm and is subject to common network requirements or uses common network services, the practitioner may be able to depend on such network requirements, for example, those addressing professional training or recruitment, or that require the use of common systems, policies, methodologies and related implementation tools.

Evaluating the nature, scope and objectives of another practitioner's work (Ref: Para. 50(c))

A128. Evaluating whether the nature, scope and objectives of another practitioner's work are

5 International Standard on Related Services (ISRS) 4400, *Agreed-Upon Procedures Engagements*

appropriate for the practitioner's purposes may include obtaining an understanding of:

- The nature of the engagement performed by another practitioner, including whether it is a limited or reasonable assurance engagement, and whether that engagement exhibits a rational purpose;
- The applicable criteria relevant to that assurance engagement;
- The scope of the engagement;
- Whether the work performed was undertaken in accordance with recognized standards;
- Whether the work performed includes tests of controls, substantive procedures or both; and
- Whether the work performed has been supported by firm-level policies or procedures designed to address quality management.

Obtaining and evaluating a one-to-many report (Ref: Para. 51-52)

A129. The practitioner's evaluation of the work of another practitioner may include obtaining and evaluating a one-to-many report as described in paragraph 51. Such a report may identify assurance procedures and the results of those procedures, including exceptions, and other related information that could affect the practitioner's conclusions. Exceptions noted by another practitioner, or a modified conclusion, in such a report does not automatically mean that the report will not be useful for the assurance engagement on the reporting entity's sustainability information. Rather, the exceptions, or the matter giving rise to a modified conclusion, in the one-to-many report are considered in the context of the significance to users of the reported information. In considering the exceptions or matters giving rise to a modified conclusion, the practitioner may seek to discuss such matters with that other practitioner, if possible, in the circumstances. Such communication is dependent upon the reporting entity contacting the value chain entity, and obtaining that entity's approval for the communication to take place.

A130. Depending on the nature of the information that is the subject of the one-to-many report, or other relevant assurance report of another practitioner, that report may identify complementary user entity controls that, if relevant to the user entity, may need to be designed and implemented by the user entity to have an appropriate basis for using the information obtained in preparing the sustainability information.

A131. The practitioner may determine that the one-to-many report does not provide sufficient appropriate evidence (e.g., the description of the procedures performed and results thereof may not provide sufficient evidence for the practitioner's purposes). In such circumstances, the practitioner may consider whether it is practicable to supplement the understanding of another practitioner's procedures and conclusions by communicating with that practitioner. If not practicable in the circumstances, the practitioner may need to perform other procedures to obtain sufficient appropriate evidence about the information from that value chain entity.

Communications with another practitioner (Ref: Para. 53)

A132. Relevant matters that the engagement team may request another practitioner to communicate include:

- Whether the other practitioner has complied with ethical requirements that are relevant to the engagement, including independence for an assurance engagement.
- Information about instances of non-compliance with laws and regulations that could give rise to a material misstatement of the sustainability information.

- A list of uncorrected misstatements identified by another practitioner during the engagement that are not clearly trivial.
- Indicators of possible bias in the preparation of relevant information.
- Description of any deficiencies in internal control identified by the other practitioner during the engagement.
- Other significant matters that another practitioner has communicated or expects to communicate to the entity, including fraud or suspected fraud.
- Any other matters that may be relevant to the sustainability information, or that another practitioner wishes to draw to the attention of the engagement team, including exceptions noted in any written representations that another practitioner requested from the component entity.
- The other practitioner's overall findings, conclusion or opinion.

A133. If the practitioner determines that another practitioner's communications are not adequate for the practitioners' purposes, the practitioner may consider whether, for example:

- Further information can be obtained from another practitioner (e.g., through further discussions or meetings);
- Review of additional documentation of another practitioner may provide the practitioner with further information; or
- There are any concerns about another practitioner's competence or capabilities.

Reviewing additional documentation of work performed by another practitioner (Ref: Para. 54)

A134. The practitioner's determination whether to review additional documentation of another practitioner may include consideration of:

- The nature, timing and extent of the work performed by another practitioner;
- The competence and capabilities of another practitioner; and
- The significant judgments made by, and the findings or conclusions of, another practitioner about matters that are material to the sustainability information.

Evidence obtained from work of another practitioner inadequate for practitioner's purposes (Ref: Para. 55)

A135. A scope limitation exists when the practitioner is unable to:

- Obtain evidence from the work of another practitioner that is adequate for the practitioner's purposes, and
- Obtain, through alternative means, sufficient appropriate evidence over the disclosures for which the practitioner intended to use the work of another practitioner as evidence.

In such circumstances, the practitioner considers the implications for the engagement and the assurance report in accordance with paragraph 182.

Using the Work of a Practitioner's Expert (Ref: Para. 56-57)

A136. The practitioner has sole responsibility for the assurance conclusion expressed, and that responsibility is not reduced by the practitioner's use of the work of a practitioner's expert. Nonetheless, if the practitioner using the work of a practitioner's expert, having followed this ISSA, concludes that the work of that expert is adequate for the practitioner's purposes, the practitioner may accept that expert's findings or conclusions in the expert's field as appropriate evidence.

A137. The nature, timing and extent of procedures to fulfill the requirement in paragraphs 56-57 will vary depending on the circumstances. Relevant considerations may include:

- The significance of the practitioner's expert's work in the context of the engagement (see also paragraphs A138-A139).
- The nature of the disclosure(s) to which that expert's work relates.
- The assessed risks of material misstatement of the sustainability information to which that expert's work relates.
- The practitioner's knowledge of and experience with previous work performed by that expert.

A137B. Agreement on the respective roles and responsibilities of the practitioner and the practitioner's expert may also include agreement about access to, and retention of, each other's engagement documentation. A practitioner's internal expert is a member of the engagement team and therefore that expert's working papers form part of the engagement documentation.

A137C. Effective two-way communication facilitates the proper integration of the nature, timing and extent of the practitioner's expert's procedures with other work on the assurance engagement, and appropriate modification of the practitioner's expert's objectives during the course of the engagement. Identification of specific partners or staff who will liaise with the practitioner's expert, and procedures for communication between that expert and the entity, assists timely and effective communication, particularly on larger engagements.

A138. When the work of a practitioner's expert is to be used, it may be appropriate to perform some of the procedures required by paragraph 56 at the engagement acceptance or continuance stage. This is particularly so when the work of the practitioner's expert will be fully integrated with the work of other assurance personnel and when the work of the practitioner's expert is to be used in the early stages of the engagement, for example during initial planning and risk assessment procedures.

Evaluating the competence, capabilities and objectivity of a practitioner's expert (Ref: Para. 56(a)-(b))

A139. The competence, capabilities and objectivity of a practitioner's expert are factors that significantly affect whether the work of the practitioner's expert will be adequate for the practitioner's purposes. Information regarding the competence, capabilities and objectivity of a practitioner's expert may come from a variety of sources.

Examples:

- Personal experience with previous work of that expert.
- Discussions with that expert.
- Discussions with other practitioners or others who are familiar with that expert's work.
- Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
- Understanding whether that expert's work is subject to technical performance standards or other professional or industry requirements, for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body.
- Published papers or books written by that expert.
- The practitioner's firm's system of quality management (see paragraphs A68-A74).

A140. A practitioner's internal expert that is a partner or staff of a network firm is subject to the firm's policies or procedures for network requirements and network services established as part of the firm's system of quality management. In some instances, the practitioner's internal expert of a network firm may be subject to common quality management policies or procedures as the practitioner's firm, given that they are part of the same network.

A141. Quality management at the engagement level is supported by the firm's system of quality management and informed by the specific nature and circumstances of the engagement. The practitioner may be able to depend on the firm's related policies or procedures regarding the evaluation of the adequacy of an internal expert's work. For example, the firm's training programs may provide internal experts with an appropriate understanding of the interrelationship of their expertise with the assurance process. Reliance on such training may affect the nature, timing and extent of the practitioner's procedures to evaluate the adequacy of the practitioner's internal expert's work.

A141A. ISQM 1 requires the firm to have policies or procedures to address quality risks arising from the use of resources from a service provider, which includes the use of an external expert. A practitioner's external expert is not a member of the engagement team and may not be subject to the firm's policies or procedures under its system of quality management.

Evaluating the competence, capabilities and objectivity of a practitioner's external expert (Ref: Para. 56(a)-(b))

A142. Relevant ethical requirements applicable to the practitioner when using the work of a practitioner's external expert may include provisions addressing the fulfillment of the practitioner's ethical responsibilities related to evaluating whether an external expert has the necessary competence, capabilities and objectivity for the practitioner's purposes. Such provisions may prohibit the practitioner from using the work of a practitioner's external expert if the practitioner:

(a) Is unable to determine whether the external expert has the necessary competence or capabilities, or is objective;

(b) Has determined that the external expert does not have the necessary competence or capabilities; or

(c) Has determined that it is not possible to eliminate circumstances that create threats to the expert's objectivity, or apply safeguards to reduce such threats to an acceptable level.

A143. The evaluation of whether the threats to objectivity are at an acceptable level may depend upon the role of the practitioner's external expert and the significance of the expert's work in the context of the engagement. In some cases, it may not be possible to eliminate circumstances that create threats or apply safeguards to reduce threats to an acceptable level, for example, if a proposed practitioner's external expert is an individual who has played a significant role in preparing the sustainability information.

A144. When evaluating the objectivity of a practitioner's external expert, it may be relevant to:

- Inquire also of the appropriate party(ies) about any known interests or relationships that the appropriate party(ies) has with the expert that may affect that expert's objectivity.
- Discuss with that expert any applicable safeguards, including any professional requirements that apply to that expert, and evaluate whether the safeguards are adequate to reduce threats to an acceptable level. Interests and relationships that may be relevant to discuss with the expert include:
    - Financial interests.
    - Business and personal relationships.
    - Provision of other services by that expert.

In some cases, it may also be appropriate for the practitioner to obtain a written representation from the practitioner's external expert about any interests or relationships with the entity or engaging party of which that expert is aware.

Understanding the field of expertise of a practitioner's expert (Ref: Para. 56(c))

A145. Having a sufficient understanding of the field of expertise of the practitioner's expert enables the practitioner to:

(a) Agree with the practitioner's expert on the nature, scope (including, when applicable, the materiality for quantitative disclosures to be applied or other considerations of materiality for qualitative disclosures) and objectives of that expert's work for the practitioner's purposes;

(b) Understand what assumptions, data and methods, including models as applicable, are used by the practitioner's expert, and whether they are generally accepted within that expert's field and appropriate in the circumstances of the engagement; and

(c) Evaluate the adequacy of that expert's work for the practitioner's purposes.

Agreement with the practitioner's expert (Ref: Para. 56(d))

A146. The nature, scope and objectives of the practitioner's expert's work may vary considerably with the circumstances, as may the respective roles and responsibilities of the practitioner and the practitioner's expert, and the nature, timing and extent of communication between the practitioner and the practitioner's expert. It is therefore required that these matters are agreed between the practitioner and the practitioner's expert regardless of whether the expert is a practitioner's external expert or a practitioner's internal expert.

A147. The matters noted in paragraph A137 may affect the level of detail and formality of the agreement between the practitioner and the practitioner's expert, including whether it is appropriate that the agreement be in writing. For example, the following factors may suggest the need for more a detailed agreement than would otherwise be the case, or for the agreement to be set out in writing:

- The practitioner's expert will have access to sensitive or confidential entity information.
- The respective roles or responsibilities of the practitioner and the practitioner's expert are different from those normally expected.
- Multi-jurisdictional legal or regulatory requirements apply.
- The matter to which the practitioner's expert's work relates is highly complex.
- The practitioner has not previously used work performed by that expert.
- The greater the extent of the practitioner's expert's work, and its significance in the context of the engagement.

Evaluating the adequacy of the practitioner's expert's work (Ref: Para. 57)

A150. Procedures to evaluate the adequacy of the practitioner's expert's work for the practitioner's purposes may include:

- Inquiries of the practitioner's expert.
- Reviewing the practitioner's expert's working papers and reports.
- Corroborative procedures, such as:
  - Observing the practitioner's expert's work;
  - Examining published data, such as statistical reports from reputable, authoritative sources;
  - Confirming relevant matters with third parties;
  - Performing detailed analytical procedures; and
  - Reperforming calculations.
- Discussion with another expert with relevant expertise when, for example, the findings or conclusions of the practitioner's expert are not consistent with other evidence obtained by the practitioner.
- Discussing the practitioner's expert's report with management.

Using the Work of the Internal Audit Function (Ref: Para. 59)

A152. In determining whether the work of the internal audit function can be used for purposes of the engagement, a first consideration is whether the planned nature and scope of the work of the internal audit function that has been performed, or is planned to be performed, is relevant to the practitioner's approach to the engagement.

A153. The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors and the level of competence of the function are particularly important in determining whether to use and, if so, the nature and extent of the use of the work of the function that is appropriate in the circumstances.

A154. Factors that may affect the practitioner's evaluation of whether the internal audit function applies a systematic and disciplined approach include the following:

- The existence, adequacy and use of documented internal audit procedures or guidance covering such areas as risk assessments, work programs, documentation and reporting, the nature and extent of which is commensurate with the size and circumstances of an entity.

- Whether the internal audit function has appropriate quality control policies and procedures, for example, policies and procedures that would be applicable to an internal audit function (such as those relating to leadership, human resources and engagement performance) or quality control requirements in standards set by the relevant professional bodies for internal auditors. Such bodies may also establish other appropriate requirements such as conducting periodic external quality assessments.

Communications Among Those Involved in the Engagement (Ref: Para. 60)

A155. Clear and timely communication about responsibilities, along with clear direction about the nature, timing and extent of the work to be performed, and the matters expected to be communicated to the practitioner, helps establish the basis for effective two-way communication. Effective two-way communication also helps to set expectations for work performed at various locations (e.g., by component practitioners) and facilitates the practitioner's direction, supervision and review of that work. Such communication also provides an opportunity for the engagement leader to reinforce the need to exercise professional skepticism in performing the work.

A156. Other factors that may also contribute to effective two-way communication include:

- Clarity of any instructions issued (e.g., to a component practitioner).
- A mutual understanding of relevant issues and the expected actions arising from the communication process.
- The form of communications. For example, matters that need timely attention may be more appropriately discussed in a meeting rather than by exchanging emails.
- A mutual understanding between the practitioner and component practitioner about which individuals have responsibility for managing communications regarding particular matters.
- The process for reporting back to the practitioner on the results of the work performed or significant issues encountered in performing the work.

A157. The communications depend on the facts and circumstances of the engagement, including, for example, the nature and extent of involvement of component practitioners and the degree to which the practitioner and component practitioners are subject to common systems of quality management, or the involvement of a practitioner's external expert.

A158. The form of the communications may be affected by such factors as:

- The significance, complexity or urgency of the matter.
- Whether the matter has been or is expected to be communicated to the entity's management or those charged with governance.

A159. The appropriate timing of communications will vary with the circumstances of the engagement. Relevant circumstances may include the nature, timing and extent of work to be performed by others. For example, communications regarding planning matters may often be made early in the engagement and, for an initial sustainability assurance engagement, may be made as part of agreeing the terms of the engagement.

Monitoring and Remediation (Ref: Para. 63)

A160. In considering information communicated by the firm through its monitoring and remediation process and how it may affect the engagement, the engagement leader may consider the remedial actions designed and implemented by the firm to address identified deficiencies and, to the extent relevant to the nature and circumstances of the engagement, communicate accordingly to the engagement team. The engagement leader may also determine whether additional remedial actions are needed at the engagement level. For example, the engagement leader may determine that:

- A practitioner's expert is needed; or
- The nature, timing and extent of direction, supervision and review needs to be enhanced in an area of the engagement where deficiencies have been identified.

If an identified deficiency does not affect the quality of the engagement (e.g., if it relates to a technological resource that the engagement team did not use) then no further action may be needed.

A161. A deficiency in the firm's system of quality management does not necessarily indicate that an assurance engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the practitioner's report was not appropriate.

Fraud and Non-Compliance with Laws and Regulations

Fraud (Ref: Para. 64)

A162. Maintaining professional skepticism requires an ongoing questioning of whether the information and evidence obtained suggests that a material misstatement due to fraud may exist. It includes considering the reliability of the information intended to be used as evidence and the controls over its preparation and maintenance where relevant. Due to the characteristics of fraud, the practitioner's professional skepticism is particularly important when considering material misstatement due to fraud, which may include omission of information or deliberate bias. Paragraph A325 provides examples of material misstatements due to fraud in sustainability information. Paragraphs 126L, 126R and 127-129 address the practitioner's required responses to fraud or suspected fraud.

Non-Compliance with Laws and Regulations (Ref: Para. 66A)

A163. Relevant ethical requirements may include a requirement to report identified or suspected non-compliance with laws and regulations to an appropriate level of management or those charged with governance. In some jurisdictions, law or regulation may restrict the practitioner's communication of certain matters with the responsible party, management or those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity. In these circumstances, the issues considered by the practitioner may be complex and the practitioner may consider it appropriate to obtain legal advice.]

A166. The reporting of identified or suspected non-compliance with laws and regulations in accordance with law, regulation or relevant ethical requirements may include non-compliance with laws and regulations that the practitioner comes across or is made aware of when performing the engagement, but which may not affect the sustainability information. Under this ISSA, the practitioner is not expected to have a level of understanding of laws and regulations beyond those affecting the sustainability information. However, law, regulation or relevant ethical requirements may expect the practitioner to apply knowledge, professional judgment and expertise in responding to such non-compliance. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

A167. In some circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the practitioner's duty of confidentiality under law, regulation, or relevant ethical requirements. In other cases, reporting identified or suspected non-compliance to an appropriate authority outside the entity would not be considered a breach of the duty of confidentiality under the relevant ethical requirements.

Communication with Management and Those Charged with Governance (Ref: Para. 67)

A168. In addition to those matters specifically required to be communicated in accordance with this ISSA, significant matters that the practitioner may consider merit the attention of management or those charged with governance, as appropriate, may include:

- Identified deficiencies in internal control.
- Management bias in the preparation of the sustainability information.
- Material misstatements of the sustainability information or other information that management has refused to correct.
- Reporting policies that are not appropriate or that are inconsistent with the applicable criteria or criteria used in the relevant industry.
- Circumstances that affect the form and content of the assurance report, if any.
- Matters relating to estimates, forward-looking information, and inherent uncertainties, and related disclosures.
- Significant matters discussed or subject to correspondence with management (see also paragraph A169).
- Significant difficulties encountered during the engagement (see also paragraph A170).

A169. Significant matters discussed, or subject to correspondence with management, may include such matters as:

- Significant events or transactions that occurred during the year.
- Concerns about management's use of work of an expert or information obtained from external sources.
- Significant matters on which there was disagreement with management.

A170. Significant difficulties encountered during the engagement may include such matters as:

- Significant delays by management, the unavailability of entity personnel, or an unwillingness by management to provide information necessary for the practitioner to perform procedures.
- An unreasonably brief time within which to complete the engagement.
- Extensive unexpected effort required to obtain sufficient appropriate evidence.
- The unavailability of expected information.
- Restrictions imposed on the practitioner by management.

In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the practitioner's assurance conclusion.

A171. In addition to communicating with management or those charged with governance, the practitioner may be permitted or required to communicate about certain matters with other relevant parties, such as regulators or prudential supervisors. Such communication may be appropriate throughout the engagement or at particular stages, such as when the practitioner identifies matters that are required to be reported to the regulator or when finalizing the assurance report.

Considerations Specific to Public Sector Entities

A172. A public sector practitioner may be obliged to report on identified or suspected non-compliance with laws and regulations to the legislature or other governing body or to report them in the practitioner's report.

Documentation

Overarching Documentation Requirements

Form, Content and Extent of Engagement Documentation (Ref: Para. 68-70)

A173. A practitioner experienced in sustainability assurance refers to an individual (whether internal or external to the firm) who has practical experience in sustainability assurance, and a reasonable understanding of:

(a) Assurance processes;

(b) ISSAs and applicable legal and regulatory requirements;

(c) The business environment in which the entity operates; and

(d) Assurance and sustainability reporting matters relevant to the entity's industry.

A174. Preparing sufficient and appropriate engagement documentation on a timely basis helps to enhance the quality of the assurance engagement and facilitates the effective review and evaluation of the evidence obtained and conclusions reached before the practitioner's report is finalized. Engagement documentation prepared after the assurance engagement work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.

A175. The form, content and extent of engagement documentation depend on factors such as:

- The size and complexity of the entity.
- The scope of the assurance engagement and nature of the procedures to be performed. For example, the extent of engagement documentation would ordinarily be less:
  - For a limited assurance engagement compared to a reasonable assurance engagement.
  - When the scope of the assurance engagement includes only certain parts, rather than all, of the sustainability information.
- The assessed risks of material misstatement.
- The significance of the evidence obtained.
- The nature and extent of exceptions identified.
- The need to document a conclusion or the basis for a conclusion not self-evident from the engagement documentation of the work performed or evidence obtained.
- The assurance methodology and tools used.

A176. Judging the significance of a matter requires an objective analysis of the facts and circumstances. Examples of significant matters include:

- Matters that give rise to risks of material misstatement that are assessed higher on the spectrum of risk.
- Results of procedures indicating that the sustainability information could be materially misstated or, in a reasonable assurance engagement, a need to revise the practitioner's

previous assessment of the risks of material misstatement and the practitioner's responses to those risks.

- Circumstances that cause the practitioner significant difficulty in applying necessary procedures.
- Findings that could result in a modification to the assurance conclusion or the inclusion of an Emphasis of Matter paragraph in the assurance report.

A177. An important factor in determining the form, content and extent of engagement documentation of significant matters is the extent of professional judgment exercised in performing the work and evaluating the results. Engagement documentation of the professional judgments made, when significant, serves to explain the practitioner's conclusions and to reinforce the quality of the judgment.

A178. Circumstances in which it is appropriate to prepare engagement documentation relating to the use of professional judgment, include matters and judgments that are significant to:

- The rationale for the practitioner's conclusion when a requirement provides that the practitioner "shall consider" certain information or factors, and that consideration is significant in the context of the particular engagement.
- The basis for the practitioner's conclusion on the reasonableness of judgments (for example, the reasonableness of significant estimates).
- The basis for the practitioner's conclusions about the authenticity of a document when further investigation is undertaken in response to conditions identified during the assurance engagement that caused the practitioner to believe that the document may not be authentic.

A179. It is neither necessary nor practical to document every matter considered, or professional judgment made, during an engagement. Further, it is unnecessary for the practitioner to document separately (e.g., through a checklist) compliance with matters for which compliance is demonstrated by documents included within the assurance engagement file.

A180. The requirement to document who reviewed the work performed does not imply a need for each specific working paper to include evidence of review. The requirement, however, means documenting what work was reviewed, who reviewed such work, and when it was reviewed.

A181. Documentation of discussions of significant matters with management, those charged with governance, and others is not limited to records prepared by the practitioner but may include other appropriate records such as minutes of meetings prepared by the entity's personnel and agreed by the practitioner. Others with whom the practitioner may discuss significant matters may include other personnel within the entity, and external parties, such as persons providing professional advice to the entity.

Assembly of the Final Engagement File (Ref: Para. 71)

A182. ISQM 1 requires firms to establish a quality objective that addresses the assembly of engagement documentation on a timely basis after the date of the engagement report. An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the assurance report.

A183. The completion of the assembly of the final engagement file after the date of the assurance report is an administrative process that does not involve the performance of new procedures or the drawing of new conclusions. Changes may, however, be made to the engagement documentation during the final assembly process if they are administrative in nature. Examples of such changes include:

- Deleting or discarding superseded documentation.
- Sorting, collating and cross-referencing working papers.
- Signing off on completion checklists relating to the file assembly process.
- Documenting evidence that the practitioner has obtained, discussed and agreed with the relevant members of the engagement team before the date of the assurance report.

A184. ISQM 1 requires firms to establish a quality objective that addresses the maintenance and retention of engagement documentation to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards. The retention period for assurance engagements ordinarily is no shorter than five years from the date of the assurance report.

Documentation Related to Quality Management (Ref: Para. 73)

A185. When dealing with circumstances that may pose risks to achieving quality on the engagement, the exercise of professional skepticism, and the engagement documentation of the practitioner's consideration thereof, may be important. For example, if the engagement leader obtains information that may have caused the firm to decline the engagement (see paragraph 29), the engagement documentation may include explanations of how the engagement team dealt with the circumstance.

Preconditions for an Assurance Engagement

Establishing Whether the Preconditions are Present

Obtaining a Preliminary Knowledge of the Engagement Circumstances (Ref: Para. 74-75)

A186. In order to establish whether the preconditions are present, the practitioner applies the preliminary knowledge obtained of the engagement circumstances (see the definition in paragraph 18) and holds discussions with the appropriate party(ies) in accordance with paragraph 75. The practitioner uses professional judgment to determine the nature and extent of the preliminary knowledge. The preliminary knowledge that the practitioner obtains ordinarily differs in nature, and is less in extent, than the understanding obtained when performing the engagement.

Obtaining a Preliminary Knowledge of the Scope of the Proposed Assurance Engagement (Ref: Para. 74(b))

A187. The scope of the assurance engagement may extend to all of the sustainability information to be reported by the entity (e.g., the entity's sustainability report), or only part of it (e.g., it may be limited to specific disclosures such as assurance on key performance indicators for product recycling rates). Also, the scope of the proposed assurance engagement may encompass the reporting boundary covered by the sustainability information to be reported, or only certain jurisdictions, entities, operations or facilities within the reporting boundary. The reporting boundary within the scope of the assurance engagement may be established by law, regulation or professional requirements, or it may be determined by the appropriate party(ies).

Considerations Specific to Public Sector Entities (Ref: Para. 75)

A188. In the absence of indications to the contrary, in a public sector environment some of the preconditions for an assurance engagement may be presumed to be present, for example:

(a) The roles and responsibilities of public sector entity management, or those charged with governance, when appropriate, may be presumed to be suitable in the circumstances, because they are generally set out in legislation;

(b) A rational purpose is generally exhibited because the engagement is set out in legislation; and

(c) The practitioner's conclusion, in a form appropriate for the engagement, is generally required by legislation to be contained in a written report.

Considering Whether the Entity has a Process to Identify Sustainability Information to be Reported (Ref: Para. 75(a), Appendix 2)

A189. An assurance engagement is conducted in accordance with this ISSA on the basis that management and, where appropriate, those charged with governance, have acknowledged and understand that they have responsibility for:

- The preparation of the sustainability information in accordance with the applicable criteria; and
- For designing, implementing and maintaining a system of internal control that management and, where appropriate, those charged with governance, determine is necessary to enable the preparation of the sustainability information in accordance with the applicable criteria (see paragraph 84).

The entity's information system and communication relevant to the preparation of the sustainability information ordinarily includes the entity's process to identify sustainability information to be reported. In the absence of such a process it may be difficult to establish whether management or those charged with governance, as appropriate, have a reasonable basis for the sustainability information.

Suitability of the Roles and Responsibilities (Ref: Para. 75(b))

A190. The three parties for an assurance engagement are:

(a) The engaging party;

(b) The practitioner, and

(c) The intended users.

A191. If the engagement does not have at least three parties, it is unable to satisfy all of the elements of an assurance engagement under the *International Framework for Assurance Engagements*. The practitioner's responses may include:

- Asking the engaging party to change the terms of engagement to reflect a three-party relationship;
- Conducting the engagement as a consulting engagement;
- Performing an agreed-upon procedures engagement; or
- Declining the engagement.

Reasonable Basis for the Sustainability Information (Ref: Para. 75(b))

A192. In evaluating whether management or those charged with governance, as appropriate, have a reasonable basis for the sustainability information, the practitioner may consider whether the entity has a process, including controls, to enable the preparation of the sustainability information that is free from material misstatement. What constitutes a reasonable basis will depend on the nature of the sustainability matters addressed by the sustainability information and other engagement circumstances.

A193. If the practitioner becomes aware that there are deficiencies in the entity's process to prepare the sustainability information that is not within the proposed scope of the assurance engagement and is therefore other information, this may indicate that management or those charged with governance, as appropriate, does not have a reasonable basis for reporting such information. In these circumstances, the implications of the requirements in this standard for other information (see paragraphs 172-175) will have an impact on the practitioner's acceptance of the proposed engagement.

Appropriate Sustainability Matters (Ref: Para. 76)

A194. Whether the sustainability matters within the scope of the engagement are appropriate is not affected by the level of assurance, that is, if a sustainability matter is not appropriate for a reasonable assurance engagement, it is also not appropriate for a limited assurance engagement, and vice versa. Therefore, inappropriate sustainability matters for a reasonable assurance engagement cannot be overcome by changing the engagement to a limited assurance engagement.

A195. In evaluating whether the sustainability matters are appropriate, and whether the sustainability information can be subject to procedures for obtaining sufficient appropriate evidence, the practitioner may consider matters such as the characteristics of the sustainability matters (i.e., the degree to which they are qualitative versus quantitative, factual versus judgmental, historical versus forward-looking, and relate to a point in time or cover a period) and the reporting boundary.

Suitability and Availability of Criteria (Ref: Para. 77, 106)

Suitable criteria for only some of the sustainability matters (Ref: Para. 77(a))

A196. If suitable criteria are unavailable for some of the sustainability information subject to the assurance engagement, but the practitioner can identify one or more disclosures for which the criteria are suitable, then an assurance engagement may be performed with respect to those disclosures.

Sources of the criteria (Ref: Para. 77(b))

A197. Criteria may be:

(a) Framework criteria, that is:

    (i) Embodied in law or regulation;

    (ii) Established for use by certain types of entities by an organization(s) that is authorized or recognized to promulgate standards for reporting sustainability information that follow a transparent due process involving deliberation and consideration of the views of a wide range of stakeholders;

    (iii) Developed collectively by a group that does not follow a transparent due process;

    (iv) Published in scholarly journals or books; or

    (v) Developed for sale on a proprietary basis;

(b) Entity-developed criteria; or

(c) A combination of framework criteria and entity-developed criteria.

A198. When criteria are selected from multiple frameworks or entity-developed criteria are to be used, the practitioner's evaluation of the suitability of the criteria may be more extensive and the practitioner may need to consider subjectivity or opportunity for management bias in selecting or developing the criteria.

A199. Framework criteria that are embodied in law or regulation or are established by an authorized or recognized organization that follows a transparent due process may be presumed to be suitable in the absence of indications to the contrary. The entity may select and apply reporting policies to apply the framework criteria as described in paragraph A2.

A200. There may be circumstances when the framework criteria are not suitable on their own and may need to be supplemented by additional framework or entity-developed criteria in order to:

- Be sufficiently prescriptive about the scope of the sustainability matters to be addressed in the sustainability information.
- Address the entity's industry or jurisdictions in which the entity operates, or other factors pertinent to the sustainability information to be reported.
- Avoid vague descriptions of expectations or judgments.

Characteristics of suitable criteria (Ref: Para. 77(c), 106)

A202. Suitable criteria are required for reasonably consistent measurement or evaluation of the sustainability matters within the context of professional judgment. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding. The suitability of criteria is context-sensitive, that is, it is determined in the context of the engagement circumstances. Even for the same sustainability matters there may be different criteria that will yield a different outcome. Suitable criteria exhibit the following characteristics:

(a) Relevance: Relevant criteria result in sustainability information that assists decision-making by the intended users;

(b) Completeness: Criteria are complete when sustainability information prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of intended users made on the basis of that sustainability information. Complete criteria include, where relevant, benchmarks for presentation and disclosure;

(c) Reliability: Reliable criteria allow reasonably consistent measurement or evaluation of the sustainability matters, when used in similar circumstances by different practitioners;

(d) Neutrality: Neutral criteria result in sustainability information that is free from bias as appropriate in the engagement circumstances; and

(e) Understandability: Understandable criteria result in sustainability information that can be understood by the intended users.

A203. The relative importance of each characteristic of the criteria to a particular engagement is a matter of professional judgment.

A204. If the criteria are unsuitable, this cannot be overcome by changing the level of assurance. That is, if criteria are unsuitable for a reasonable assurance engagement, they are also unsuitable for a limited assurance engagement, and vice versa.

Availability of the criteria to users (Ref: Para. 77(d))

A205. Criteria being available allows the intended users to understand how sustainability matters have been measured or evaluated. The intended users are unlikely to be able to base decisions on the sustainability information without access to both the framework criteria and any entity-developed criteria supplementing the framework criteria. In determining whether the criteria are available to the intended users, the practitioner may consider whether they will be available in writing, with sufficient detail, sufficiently clear, and including identification of the version of the criteria applied. Criteria may be made available:

(a) Publicly, for example, in published framework criteria or a general-purpose framework that is readily available, such as on a website.

(b) Through inclusion in the sustainability information, in particular for entity-developed criteria.

(c) By general understanding, for example, the criterion for measuring time in hours and minutes.

Ability to Obtain Evidence Needed (Ref: Para. 78(a))

A206. In determining whether the evidence needed to support the practitioner's conclusion can be expected to be obtained, the practitioner may consider:

(a) The characteristics of the sustainability matters and the potential sources of evidence; and

(b) Whether evidence is not available due to the engagement circumstances, even though the evidence could reasonably be expected to exist.

A207. Examples of the nature and availability of evidence that may impact the practitioner's ability to obtain evidence, include:

- The timing of the practitioner's appointment, the entity's document retention policy, inadequate information systems, or a restriction imposed by the appropriate party(ies).
- The nature of the relationship between the appropriate party(ies) affecting the practitioner's ability to access records, documentation, and other information the practitioner may require as evidence to complete the engagement.
- Evidence located at organizations not controlled by the entity, such as entities within the value chain but outside of the reporting entity's control. In such cases, the practitioner may determine whether the entity has contractual arrangements with those organizations to provide access to persons or information, or to provide independent assurance reports on relevant internal controls or the measurement or evaluation of relevant sustainability matters, or whether the entity has plans to put such arrangements in place.

A208. In some circumstances, the practitioner may conclude that, due to the condition and reliability of an entity's records, it is unlikely that sufficient appropriate evidence will be available to support an unmodified conclusion on the sustainability information. This may occur, for example, when the entity has little experience with the preparation of sustainability information. In such circumstances, it may be more appropriate for the sustainability information to be subject to an agreed-upon procedures engagement or a consulting engagement in preparation for an assurance engagement in a later period. However, such engagements can give rise to potential threats to the practitioner's independence in performing an assurance engagement at a later date.

A209L. The evidence that the practitioner obtains in a limited assurance engagement is more limited than in a reasonable assurance engagement. However, the need for availability and accessibility to evidence is the same regardless of the level of assurance, as the practitioner may be required, in accordance with paragraph 147L, to design and perform additional procedures to obtain further evidence in a limited assurance engagement if the practitioner becomes aware of a matter that causes the practitioner to believe the sustainability information may be materially misstated (see paragraph A235).

Rational Purpose (Ref: Para. 79)

A210. If the assurance engagement is required by law or regulation, the practitioner may presume, in the absence of indications to the contrary, that the engagement has a rational purpose.

A211. Other matters the practitioner may consider in evaluating whether the engagement has a rational purpose, include whether:

- When the engagement is a combined reasonable and limited assurance engagement, there is sufficient justification for the different levels of assurance.
- Management and those charged with governance, if different from the engaging party, have consented to the reporting of the sustainability information.
- When the criteria were selected or developed by the entity, how the intended users were identified in selecting the criteria.
- The degree of judgment and scope for bias in applying the criteria.
- There are any significant limitations on the scope of the practitioner's work.
- The engaging party intends to associate the practitioner's name with the sustainability matters or the sustainability information in an inappropriate manner.

Meaningful level of assurance in a limited assurance engagement (Ref: Para. 79(a))

A212L. The level of assurance the practitioner plans to obtain is not ordinarily susceptible to quantification. Whether the level of assurance is meaningful is a matter of professional judgment for the practitioner to determine in the circumstances of the engagement. In a limited assurance engagement, the procedures performed vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, but are, nonetheless, planned to obtain a level of assurance that is meaningful. To be meaningful the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the sustainability information to a degree that is clearly more than inconsequential.

A213L. Across the range of all limited assurance engagements, what is meaningful assurance can vary from just above assurance that is likely to enhance the intended users' confidence about the sustainability information to a degree that is clearly more than inconsequential to just below reasonable assurance. What is meaningful in a particular engagement represents a judgment within that range that depends on the engagement circumstances, including the information needs of intended users as a group, the criteria, and the sustainability matters of the engagement.

A214L. Some of the factors that may be relevant in determining what constitutes meaningful assurance in a specific engagement include:

- The characteristics of the sustainability matters and the applicable criteria.
- Instructions or other indications from the appropriate party(ies) about the nature of the assurance. For example, the terms of the engagement may stipulate particular procedures that the appropriate party(ies) considers necessary or particular aspects the appropriate party(ies) would like the practitioner to focus on within the sustainability information that is within the scope of the assurance engagement. However, the practitioner may consider

that other procedures are required to obtain sufficient appropriate evidence to obtain meaningful assurance.

- Generally accepted practice with respect to assurance engagements for sustainability information.
- The information needs of intended users as a group. Generally, the greater the consequence to intended users of receiving an inappropriate conclusion when the sustainability information is materially misstated, the greater the assurance that would be needed in order to be meaningful to them. For example, in some cases, the consequence to intended users of receiving an inappropriate conclusion may be so great that a reasonable assurance engagement is needed for the practitioner to obtain assurance that is meaningful in the circumstances.
- The expectation by intended users that the practitioner will form the limited assurance conclusion on the sustainability information within a short timeframe and at a low cost.

Appropriateness of the scope of the assurance engagement (Ref: Para. 79(c))

A215. The practitioner's determination of the appropriateness of the scope of the assurance engagement ordinarily involves the consideration of the results of the practitioner's evaluation or determination, as applicable, of the characteristics in paragraph 77(c).

A216. If the scope of the assurance engagement includes only part of the sustainability information being reported by the entity (e.g., in reporting labor practices, the entity only requires assurance over occupational health and safety disclosures), the practitioner may consider whether the reasons for the scope of the engagement are appropriate.

A217. The entity may not have a reasonable basis for all of the disclosures in the sustainability information, such as when the entity's processes to prepare some or all of the sustainability information are at an early stage of development. In such cases, if permitted by the applicable criteria, it may be possible to include only those areas of the sustainability information where the processes are more developed within the scope of the assurance engagement, because the preconditions have been met for those areas.

A218. In jurisdictions in which law or regulation does not require assurance on sustainability information, and in particular for sustainability information that is reported voluntarily, there may be legitimate reasons for not including all of the sustainability information being reported by the entity within the scope of an assurance engagement. In determining whether the sustainability information within the scope of the engagement is appropriate, the practitioner may consider:

(a) Whether the sustainability information within the scope of the assurance engagement is likely to meet the information needs of intended users; and

(b) How the sustainability information will be presented and whether intended users may misinterpret what has, and has not, been subject to the assurance engagement.

A219. Examples of circumstances when the sustainability information subject to the assurance engagement may not be appropriate include:

- Inadequate justification for not including sustainability information to be reported within the scope of the engagement.
- The assurance engagement excludes sustainability information that can be readily measured or evaluated and the exclusion of this sustainability information from the assurance engagement may be misleading to intended users.

- The assurance engagement excludes sustainability information that may be significant to intended users' decisions.
- The assurance engagement includes sustainability information that may be perceived by intended users as positive, and excludes sustainability information that is negative (e.g., areas where the entity has not met targets or has not taken action to achieve goals).
- The reporting boundary excludes significant entities, operations or facilities, which may be misleading to intended users.

A220. The practitioner's evaluation of the suitability of the criteria may include consideration of criteria for the preparation of any other part(s) of the sustainability information not within the scope of the assurance engagement. This may enable the practitioner to consider matters such as:

- Whether there may be omissions of relevant parts of the sustainability information from the sustainability information within the scope of the assurance engagement, and whether such omissions call into question the rational purpose of the engagement; and
- Whether and how the sustainability information is used in the preparer's own decision-making processes, for example:
  - If information relating to an entity's decisions is important to its stakeholders, then it may be reasonable to expect that the entity would be using that information in its own decision-making.
  - If the entity is using the information in its decision-making, then it may be reasonable to expect that a user may be interested in that information.
  - If the information is not used for the entity's own decision-making, that may raise a question as to why the information is being reported, and whether there may be bias in selecting only sustainability information that are easily subject to an assurance engagement or that present the entity in a positive way.

Preconditions Not Present After Acceptance (Ref: Para. 81-82)

A221. If the practitioner discovers after accepting the engagement that one or more of the preconditions in paragraph 75 are not present, but continues the engagement, the assurance report may address the matter. For example:

- When, in the practitioner's professional judgment the intended users are likely to be misled, since either the applicable criteria are unsuitable, or the sustainability matters are inappropriate, a qualified conclusion or adverse conclusion may be appropriate, depending on how material and pervasive the matter is.
- A qualified conclusion or a disclaimer of conclusion may be appropriate in other circumstances depending on, in the practitioner's professional judgment, the materiality and pervasiveness of the matter.

Terms of the Assurance Engagement

Agreeing the Terms of the Assurance Engagement (Ref: Para. 84)

A222. It is in the interests of both the engaging party and the practitioner for the practitioner to communicate in writing the agreed terms of the engagement before the commencement of the engagement to help avoid misunderstandings. The form and content of the written agreement or contract will vary depending on the engagement circumstances. For example, if law or regulation prescribes in sufficient detail the terms of the engagement, the practitioner need not record them in a written agreement, except for the fact that such law or regulation applies and that the appropriate party(ies) acknowledges and understands its responsibilities under such law or regulation.

A223. When agreeing the terms of engagement, unless restricted by law or regulation, the practitioner may request agreement from management or those charged with governance to provide information or access to persons, such as:

- Access to other practitioners providing audit or assurance reports on part or parts of the other information (e.g., the auditor of the financial statements of the entity if the other information includes the financial statements).
- Authority to obtain information relevant to the assurance engagement on the sustainability information from the other practitioners.
- Authority to share information requested by the financial statement auditor relevant to the audit or review of the financial statements.
- Authority to communicate findings with other practitioners, as appropriate.

A224 In describing the practitioner's responsibilities in the terms of engagement, the practitioner may consider the responsibilities required to be included in the assurance report in accordance with paragraph 187(h).

A225. Law or regulation, particularly in the public sector, may mandate the appointment of a practitioner and set out specific powers, such as the power to access an appropriate party(ies)'s records and other information, and responsibilities, such as requiring the practitioner to report directly to a minister, the legislature or the public if an appropriate party(ies) attempts to limit the scope of the engagement.

Changing the Terms of the Assurance Engagement (Ref: Para. 86)

A226. Examples of when the appropriate party(ies) may request a change to the terms of the assurance engagement and there may not be reasonable justification for doing so include:

(a) The change is to limited assurance from reasonable assurance because of an inability to obtain sufficient appropriate evidence; or

(b) The change is to remove sustainability information from the scope of the assurance engagement to avoid a modification of the assurance conclusion.

A227. A change in circumstances that affects the intended users' needs, or a misunderstanding concerning the nature of the engagement, may justify a request for a change in the engagement, for example, from an assurance engagement to a non-assurance engagement, or from a reasonable assurance engagement to a limited assurance engagement.

Evidence

Designing and Performing Procedures to Obtain Sufficient Appropriate Evidence (Ref: Para. 88)

A228. Evidence is necessary to support the practitioner's conclusion and assurance report. It is cumulative in nature and is primarily obtained from procedures performed during the course of the engagement. It may, however, also include information obtained from other sources, such as previous engagements (provided the practitioner has determined whether changes have occurred since the previous engagement that may affect the relevance of the information to the current engagement), a firm's policies or procedures for acceptance and continuance of client relationships and assurance engagements, or the work of another practitioner. Evidence comprises information that supports or corroborates disclosures, and any information that contradicts disclosures.

A229. The practitioner obtains evidence by designing and performing procedures, including risk assessment procedures and further procedures, to comply with this ISSA. The nature of a procedure refers to its purpose and its type. Types of procedures include inquiries, inspection, observation, confirmation, recalculation, reperformance and analytical procedures.

Designing and Performing Procedures in a Manner that is Not Biased (Ref: Para. 88(a))

A230. Unconscious or conscious biases may affect the engagement team's professional judgments in designing and performing procedures, which may impede the exercise of professional skepticism. An awareness of such biases when designing and performing procedures may help to mitigate impediments to the practitioner's exercise of professional skepticism in critically assessing evidence and determining whether sufficient appropriate evidence has been obtained. Such awareness may also enable the practitioner to design and perform procedures that seek to avoid:

- Placing more weight on evidence that corroborates disclosures than evidence that contradicts or casts doubt on such disclosures (confirmation bias).
- Using an initial piece of information or evidence as an anchor against which subsequent information or 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, or assuming it is relevant and reliable, without performing appropriate procedures (automation bias).
- Placing undue reliance on information prepared by an expert or another practitioner, or assuming the information is relevant and reliable, without performing appropriate procedures (authority bias).

A231. Obtaining evidence in an unbiased manner may involve obtaining information from multiple sources (see also paragraphs A258-A260).

Procedures that are Appropriate in the Circumstances (Ref: Para. 88(b))

A232. Procedures are appropriate in the circumstances when the nature, timing and extent of such procedures are designed, performed and executed in a manner that achieves the intended purpose of the procedures. The purpose of performing a procedure may be related to risk assessment procedures, further procedures or another procedure to comply with this ISSA. For example, the purpose may be to obtain evidence about whether an event has occurred or whether the disclosures are complete.

A233. In designing and performing procedures that are appropriate in the circumstances to provide evidence to meet the intended purpose of those procedures, the practitioner's considerations may include whether information intended to be used as evidence:

- Is expected to be available in digital, written or oral form, related to a point in time or for a period, and is to be obtained from internal or external sources.
- Is needed across multiple disclosures and how that affects the nature, timing and extent of evidence needed. For example, the nature and availability of appropriate evidence may vary based on whether the disclosures relate to an entity's processes, governance, controls or key performance indicators, and the characteristics of the disclosures, such as whether

they are quantitative, qualitative, historical or forward-looking (see also paragraphs A243-A247).

- Relates to disclosures that include information from the entity's value chain, and how that may affect the ability to obtain sufficient appropriate evidence.
- Will need to be obtained across multiple locations or jurisdictions (e.g., for a group sustainability assurance engagement).
- Relates to disclosures that are factual, judgmental or subject to estimation uncertainty.

A234. In designing and performing procedures, the appropriateness of an approach or technique in selecting items for testing depends on several factors, such as:

- The nature of the sustainability matters or population to be tested.
- The intended purpose of the procedure.
- How the procedure is designed.
- Whether the practitioner is performing the procedure manually or using automated tools and techniques.
- The matters described in paragraph A233 relating to information intended to be used as evidence.
- The persuasiveness of evidence that is needed in the circumstances.

Sufficiency and Appropriateness of Evidence (Ref: Para. 88(b))

A235. The practitioner is required to obtain sufficient appropriate evidence to provide a basis for the assurance conclusion. The sufficiency and appropriateness of evidence are interrelated and together affect the persuasiveness of evidence. In both limited and reasonable assurance engagements, the collective persuasiveness of the evidence obtained establishes the level of assurance obtained. The practitioner aims to obtain evidence that is collectively persuasive to respond to risk considerations. Ordinarily, evidence will be persuasive rather than conclusive. As explained in paragraph A209L, the evidence that the practitioner obtains in a limited assurance engagement is more limited than in a reasonable assurance engagement. However, if the practitioner becomes aware in a limited assurance engagement of a matter(s) that causes the practitioner to believe that the sustainability information may be materially misstated, the practitioner is required to design and perform additional procedures to obtain further evidence.

A236. Sufficiency is the measure of the quantity of evidence. Sufficiency is also affected by the quality of evidence (the higher the quality, the less may be required). Obtaining more evidence, however, may not compensate for its poor quality.

A237R. For reasonable assurance engagements, the quantity of evidence needed is affected by the nature and number of disclosures and the assessment of the risks of material misstatement at the assertion level for those disclosures (the higher the assessed risks, the more evidence is likely to be required).

A238L. For limited assurance engagements, the quantity of evidence needed is affected by the nature and number of disclosures and the assessment of the risks of material misstatement at the disclosure level. As explained in paragraph A212L, the procedures in a limited assurance engagement vary in nature and timing and are lesser in extent than for a reasonable assurance engagement but are, nonetheless, planned to obtain a level of assurance that is meaningful. The sufficiency of evidence is evaluated in that context.

A239. The appropriateness of evidence refers to its quality. The quality of evidence depends on the relevance and reliability of the information intended to be used as evidence as well as the effectiveness of the design of the assurance procedures and the practitioner's application of those procedures. Information that is more relevant and reliable ordinarily is of a higher quality and, therefore, may provide more persuasive evidence. If the evidence is more persuasive, the practitioner may determine that the evidence is sufficient in providing support for the practitioner's conclusions. Alternatively, when evidence is less persuasive, the practitioner may determine that additional evidence is needed. However, increasing the quantity of evidence by performing the same type of procedures may not provide more persuasive evidence in all circumstances.

A240. The practitioner uses professional judgment and exercises professional skepticism in evaluating the sufficiency and appropriateness of evidence to support the assurance conclusion.

A241. Factors that affect the evidence that may be available in the circumstances, in terms of quantity or quality, and therefore impact its sufficiency or appropriateness, include the following:

- The characteristics of the sustainability matters or disclosures. For example, less objective evidence might be expected when the disclosures are forward-looking rather than historical.
- Whether the source of the information used to prepare the disclosures is accessible. For example, if the criteria require the sustainability information to include information from value chain entities outside of the entity's control, there may be limitations on access to such information or to the work of another practitioner that may have provided an assurance report on such information. Such limitations may also affect the practitioner's evaluation of the relevance and reliability of this information intended to be used as evidence (see also paragraphs A239 and A255).
- Other circumstances, such as when evidence that could reasonably be expected to exist is not available because of factors such as those described in paragraph A207.

A242. The procedures designed and performed by the practitioner may also affect the persuasiveness of the evidence obtained. For example, in a reasonable assurance engagement, evaluating the design and implementation of controls relating to processes in the entity's information system that support the preparation of the sustainability information, or external confirmation procedures to obtain evidence about information used by management in preparing the sustainability information, may provide more persuasive evidence than inquiry of management. In a reasonable assurance engagement, inquiry alone ordinarily does not provide sufficient appropriate evidence.

Qualitative Information (Ref: Para. 88(b))

A243. Some qualitative disclosures may be factual and directly observable or otherwise able to be subject to further procedures to gather evidence. However, some qualitative disclosures may be inherently judgmental, not directly observable and may be susceptible to management bias. The practitioner may need to exercise significant professional judgment in evaluating what constitutes sufficient appropriate evidence in these circumstances.

A244. The entity's information system, including internal controls, may be different for quantitative and qualitative information. This may have implications for the practitioner's planned procedures, the ability to obtain the evidence needed about qualitative sustainability information, and the assurance conclusion. For example, when designing and performing procedures for qualitative sustainability information, the practitioner may consider:

- Whether, in the case of a reasonable assurance engagement, substantive procedures alone will provide sufficient appropriate evidence. If not, the practitioner may need to perform tests of controls over the integrity of data, or other controls within the entity's information system that support the preparation of the qualitative information.

- The source of the information intended to be used as evidence, how such information has been captured and processed by the entity's information system, and how this may affect the reliability of the information. For example, information may be captured directly into the entity's information system on a real-time basis without supporting documentation or may be obtained through informal communication.

Forward-looking Information (Ref: Para. 88(b))

A245. Forward-looking information, by its nature, is predictive and may be expressed in both quantitative and qualitative terms. Information about future conditions or outcomes relate to events and actions that have not yet occurred and may not occur, or that have occurred but are still evolving in unpredictable ways. For example, this information may include forecasts or projections, and may relate to the entity's intentions or strategy, future risks and opportunities. While forward-looking information may result from applying criteria to the sustainability matters, the sustainability matters (a future event, occurrence or action) may be subject to greater uncertainty, and ordinarily able to be evaluated with less precision than historical matters. Uncertainty and the need for judgment are also likely to increase the further into the future the period to which the disclosures relate. Unlike historical information, it is not possible for the practitioner to determine whether the results or outcomes forecasted or projected have been or will be achieved or realized. The practitioner may obtain evidence about whether the forward-looking information has been prepared in accordance with the applicable criteria on the basis of the assumptions used by the entity, and:

(a) In the case of forecasts, whether the assumptions used provide a reasonable basis for preparing the sustainability information; or

(b) In the case of projections that use hypothetical assumptions, whether such assumptions are consistent with the purpose of the information.

A246. Evidence may be available to support the assumptions on which the forward-looking sustainability information is based, but such evidence itself may also be forward-looking and, therefore, speculative in nature. Accordingly, the practitioner may need to exercise significant professional judgment in determining whether the evidence is sufficient and appropriate. In some circumstances, the evidence available may support a range of possible outcomes with the disclosure falling within that range. The practitioner's evaluation of whether the disclosures are reasonable based on the evidence obtained is further addressed in paragraph 178.

A247. The nature and availability of evidence for forward-looking information, and what constitutes sufficient appropriate evidence, will likely vary by topics, aspects of topics and disclosures, and the practitioner's consideration of potential material misstatements. For example:

- When disclosures relate to future strategy, a target, or other intentions of an entity, the practitioner may focus evidence-gathering activities on whether management or those charged with governance have an intention to follow that strategy, the target or intention exists, or there is a reasonable basis for the intended strategy or target (e.g., the practitioner may obtain evidence to support that the entity has the ability to carry out its intent, or is implementing controls over source data and the assumptions on which the strategy is based).
- When disclosures relate to future risks and opportunities, the practitioner may focus evidence-gathering activities on information available from the entity's risk register or records of discussions of those charged with governance if the entity's controls over the

maintenance of the risk register and the minuting of discussions provide a reasonable basis for using these sources as evidence. In a reasonable assurance engagement, the practitioner may need to consider obtaining evidence about the effectiveness of the entity's controls.

Information Intended to be Used as Evidence

Evaluating the Relevance and Reliability of Information Intended to be Used as Evidence (Ref: Para. 89)

A248. In planning and performing a sustainability assurance engagement, the practitioner may obtain information from a variety of sources and in different forms. Such information ordinarily is expected to result in evidence to support the conclusions that form the basis for the practitioner's assurance conclusion and report. However, such information can become evidence only after procedures are applied to it, including procedures to evaluate its relevance and reliability. For purposes of this ISSA, this information is referred to as "information intended to be used as evidence."

A249. Factors that may influence the nature, timing and extent of procedures to evaluate the relevance and reliability of information intended to be used as evidence, include:

(a) The source of the information (see paragraphs A258-A260); and

(b) The attributes of relevance and reliability of the information that are considered applicable in the circumstances (see paragraphs A261-A266).

A250. In some circumstances, the procedures to evaluate relevance and reliability may be straightforward (e.g., comparing information used by management to information published by a national government body). In other circumstances, procedures, including tests of controls, may be performed to evaluate the reliability of information (e.g., the accuracy and completeness of information generated internally from the entity's information system).

A251. Evidence from performing other procedures in accordance with this ISSA also may assist the practitioner in evaluating the relevance and reliability of information intended to be used as evidence. For example, evidence obtained from:

- The practitioner's understanding of the entity and its environment, the applicable criteria and the entity's system of internal control.
- Tests of controls over the preparation and maintenance of the information.
- Procedures performed when using the work of a practitioner's expert.

Form, Availability, Accessibility and Understandability of Information

A252. The form, availability, accessibility and understandability of the information intended to be used as evidence may affect:

(a) The design and performance of the procedures in which the information will be used; and

(b) The practitioner's evaluation of the relevance and reliability of the information.

For example, information may only be available in digital form on a continuous basis. In such circumstances, the practitioner may use automated tools and techniques that are designed to operate on a real-time basis to evaluate the relevance and reliability of the information.

A253. The practitioner may receive information intended to be used as evidence in many forms, ranging from information generated from highly complex automated systems to information manually prepared by management and others within the entity. The practitioner may have an expectation of the form in which information intended to be used as evidence will be received. Remaining alert for information intended to be used as evidence that is received in a form different from the expected form may assist the practitioner in mitigating unconscious biases that may impede the practitioner's exercise of professional skepticism. In addition, receiving information in a form different from that expected may also be relevant to the practitioner's evaluation of the reliability of that information.

A254. Information intended to be used as evidence may exist, but access to such information may be restricted, for example, due to restrictions imposed by law or regulation or the source providing the information (e.g., due to hospital patient confidentiality), or due to war, civil unrest or outbreaks of disease. In some cases, the practitioner may be able to overcome restrictions on access to information. In particular, the practitioner may request management or those charged with governance of the entity to assist in requesting information from a source when contractual obligations exist between an information source and the entity. For example, this may be possible when the reporting entity has a direct business relationship with a value chain entity, such as a large supplier or customer. The practitioner may also consider whether it is possible to visit a location to inspect information that is available but cannot be transferred outside of a jurisdiction.

A255. As explained in paragraph A241, there may be limitations on management's ability to obtain information from value chain entities outside of the entity's control. In these circumstances, the applicable criteria may provide certain relief provisions for management (e.g., the ability to develop estimates using sector-average data after making reasonable efforts to obtain the information). Regardless of any limitations on management's ability to obtain information from such value chain entities, the practitioner is required to obtain sufficient appropriate evidence about the value chain information reported by management. Paragraph A292 describes procedures that may be considered by the practitioner in these circumstances, including testing management's process for obtaining such information.

A256. The practitioner may be unable to obtain sufficient appropriate evidence if the practitioner determines that it is not practicable to obtain information intended to be used as evidence or does not have a sufficient basis to evaluate the relevance and reliability of information (e.g., from an external source). In some circumstances, the practitioner may be able to obtain sufficient appropriate evidence through alternative procedures. An inability to obtain sufficient appropriate evidence requires the practitioner to express a qualified conclusion or disclaim a conclusion on the sustainability information, or withdraw from the engagement if withdrawal is possible under applicable law or regulation, in accordance with paragraph 182 of this ISSA.

A257. In some circumstances, specialized skills or knowledge may be needed to understand or interpret the information intended to be used as evidence, for example, emissions data from downstream or upstream entities, water quality or biodiversity measurements. Accordingly, the practitioner may consider using a practitioner's expert to assist in understanding or interpreting the information intended to be used as evidence if the engagement team does not have the appropriate competence and capabilities to do so.

Sources of Information

A258. Information intended to be used as evidence may come from internal sources or external sources and may affect the availability, accessibility and understandability of the information intended to be used as evidence. For example, information may come from:

- The entity's records, management or other sources internal to the entity.
- Other entities within the entity's control.
- Entities in the value chain. For value chain information, the framework criteria may recognize that management's ability to access information directly from value chain entities

outside of the entity's control may be limited, and therefore may include provisions that take into account the impact of such limitations on the responsibilities of management. For example, the framework criteria may permit management to use reasonable and supportable information, e.g. publicly available sector-average data, when management is unable to obtain information from the value chain entity after making reasonable efforts to do so. See also paragraphs A291-A292 regarding the impact on the practitioner's work.

- A management's expert.
- A practitioner's expert.
- Independent sources external to the entity, other than a management's or practitioner's expert, that provide information, such as the entity's legal counsel, customers, suppliers, governmental agencies, bank, or general data providers (e.g., entities providing macro-economic, industry or social data).
- A service organization.
- Another practitioner, which may include a practitioner engaged by an entity to provide a one-to-many report (see paragraph A293).

A259. The practitioner is not required to perform an exhaustive search to identify all possible sources of information to be used as evidence. The practitioner's understanding of the entity and its environment, the applicable criteria and the entity's system of internal control may assist the practitioner in identifying appropriate sources of information.

A260. The practitioner ordinarily obtains more assurance from consistent evidence obtained from different sources or of a different nature than from items of evidence considered individually. In addition, obtaining information intended to be used as evidence from different sources or of a different nature may indicate that an individual item of information intended to be used as evidence is not reliable. For example, corroborative information obtained from a source independent of the entity may increase the assurance the practitioner obtains from a representation from management. Conversely, when evidence obtained from one source is inconsistent with that obtained from another, the practitioner determines what additional procedures are necessary to resolve the inconsistency.

Attributes of Relevance and Reliability of Information

A261. The quality of evidence depends on the relevance and reliability of the information upon which it is based. Whether, and the degree to which, certain attributes of relevant and reliable information are considered applicable in the circumstances is a matter of professional judgment.

Relevance

A262. The principal attribute of the relevance of information intended to be used as evidence deals with the logical connection with, or bearing upon, the purpose of the procedure, including, in a reasonable assurance engagement, the assertion being tested. The degree to which the information relates to meeting the purpose of the procedure may also be a consideration.

Reliability

A263. The reliability of information intended to be used as evidence deals with the degree to which the practitioner may depend on such information. Common attributes that may be applicable when considering the degree to which information intended to be used as evidence is reliable may include whether the information is:

(a) Accurate (free from error).

(b) Complete (reflecting all applicable events, conditions and circumstances).

(c) Authentic (genuine, authorized and not inappropriately altered).

(d) Free from bias (whether intentional or unintentional).

(e) Credible (generated by a competent, capable and trustworthy source).

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

A264. Factors that may affect the practitioner's professional judgment about the relevance and reliability of information intended to be used as evidence, including which attributes of reliability may be applicable in the circumstances, include:

- The disclosures and, for reasonable assurance engagements, the assertions, for which the information will be used as evidence. Information may be relevant to multiple disclosures. Some information may be relevant for certain assertions but not others.
- The period of time to which the information relates.
- The controls over the preparation and maintenance of the information.
- The practitioner's assessment of the risks of material misstatement at the disclosure level (in a limited assurance engagement) or at the assertion level for the disclosures (in a reasonable assurance engagement).
- The intended purpose of the procedure in which the information will be used.
- The level of detail of the information needed given the intended purpose of the procedure. For example, information related to key performance indicators used by management may not be precise enough to detect material misstatements at the assertion level and therefore may not, in a reasonable assurance engagement, be appropriate for use by the practitioner in performing further procedures.
- The level of precision within the applicable criteria regarding what is to be reported and how it is to be measured or evaluated. For example, when the applicable criteria require more granular quantitative disclosures, the practitioner may consider the attributes of accuracy and completeness to be important.
- The source of the information. For example, accuracy and completeness ordinarily will be applicable attributes for information generated internally from the entity's information system (such as when performing further procedures). For information obtained from a source external to the entity, the practitioner may be more focused on other attributes of reliability, including the credibility of the source providing the information.
- The ability of the reporting entity to influence information obtained from external sources with whom they have relationships.
- Evidence of general market acceptance by users of the relevance and reliability of information from an external source, including tolerance for less precise information, for example, when that information is inherently subjective.

A265. The reliability of information, in particular the attributes of accuracy, completeness and authenticity, when deemed to be applicable in the circumstances, may also be affected by whether the integrity of the information has been maintained through all stages of processing through the entity's information systems. For example, an entity's information system may include general information technology controls to safeguard and maintain the integrity of the sustainability information.

A266. The source of the information intended to be used as evidence may affect the nature and extent of the practitioner's evaluation of the relevance and reliability of the information. It may also affect how the practitioner responds to matters such as doubts about the reliability of the information, or inconsistencies in evidence. For example, if the information comes from a highly reputable external source, such as an authorized jurisdictional environmental agency, the practitioner's work effort in considering the reliability of the information may not be extensive.

Information Produced by the Entity (Ref: Para. 90)

A267. In order for the practitioner to obtain reliable evidence, information produced by the entity that is used for performing procedures needs to be sufficiently complete and accurate. Obtaining evidence about the accuracy and completeness of such information may be performed concurrently with the actual procedure applied to the information when obtaining such evidence is an integral part of the procedure itself. In other situations, the practitioner may have obtained evidence of the accuracy and completeness of such information by testing controls over the preparation and maintenance of the information. In some situations, however, the practitioner may determine that additional procedures are needed.

A268. In some cases, the practitioner may intend to use information produced by the entity for other purposes. For example, the practitioner may intend to use the entity's production numbers for the purpose of analytical procedures for water or energy consumption, or to use the entity's information produced for monitoring activities, such as reports of the internal audit function. In such cases, the appropriateness of the evidence obtained is affected by whether the information is sufficiently precise or detailed for the practitioner's purposes. For example, performance measures used by management may not be precise enough to detect material misstatements.

Work Performed by a Management's Expert (Ref: Para. 91)

A269. When evaluating the relevance and reliability of information intended to be used as evidence prepared by a management's expert:

(a) The competence and capabilities of that expert may inform the practitioner's consideration of the attribute of credibility. The credibility of the source providing the information affects the degree to which information intended to be used as evidence is reliable; and

(b) The objectivity of that expert may inform the practitioner's consideration of the attribute of bias. A broad range of circumstances may influence the professional judgments of the management's expert, which may threaten the management expert's objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats and intimidation threats. Bias in the information intended to be used as evidence also affects the degree to which information is reliable. In some cases, information prepared by a management's expert may be subject to bias, as management may have an influence on the professional judgments of the management's expert.

Competence and Capabilities of the Management's Expert (Ref: Para. 91(a))

A270. 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.
- The management's expert's competence with respect to relevant sustainability matters, for example, knowledge of assumptions and methods, including models when applicable, that are consistent with the applicable criteria.

A271. 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.

Obtain an Understanding of the Work Performed by the Management's Expert (Ref: Para. 91(b))

A272. Matters relevant to the practitioner'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 in the context of the applicable criteria and the sustainability matters;
  - 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 evidence.

Obtain an Understanding of How the Information Prepared by the Management's Expert Has Been Used by Management in the Preparation of the Sustainability Information (Ref: Para. 91(c))

A273. Obtaining an understanding about how the information prepared by a management's expert has been used by management in the preparation of the sustainability information may include understanding:

(a) How management has considered the appropriateness of the information prepared by the management's expert; and

(b) The modifications made by management to the information prepared by the management's expert.

A274. This understanding may assist the practitioner in:

(a) Evaluating the relevance and reliability of the information intended to be used as evidence; and

(b) Understanding whether the expert's findings or conclusions have been appropriately reflected in the sustainability information. For example, in some circumstances, management may need to modify the information prepared by the management's expert, such as when the information provided is too general and requires adjustment to reflect the circumstances unique to the entity. Management's adjustments may give rise to bias, or management may not have the appropriate competence and capabilities to adapt or adjust the information, which may cause the information to be inaccurate, incomplete or lack credibility.

Evaluating the Appropriateness of the Management's Expert's Work (Ref: Para. 91(d))

A274A. Considerations when evaluating the appropriateness of the management's expert's work as evidence may include:

- The relevance and reasonableness of that expert's findings or conclusions, their consistency with other evidence, and whether they have been appropriately reflected in the sustainability information;
- If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and
- If that expert's work involves significant use of source data, the relevance and reliability of that source data.

Doubts About the Relevance and Reliability of Information Intended to be Used as Evidence (Ref: Para. 92-93)

A275. Unless the practitioner has reason to believe the contrary, the practitioner may accept records and documents as genuine. When the practitioner identifies conditions that cause the practitioner to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the practitioner, possible procedures to investigate further may include:

(a) Confirming directly with the third party.

(b) Using the work of an expert to evaluate the document's authenticity.

A276. Factors or circumstances that may give rise to doubts about the reliability of information intended to be used as evidence include:

- An inability to evaluate the relevance and reliability of the information, including, for example, whether the information is authentic.
- Misstatements identified during the assurance engagement.
- Deficiencies in internal control identified by the practitioner.
- When procedures performed on a population result in a higher rate of deviation than expected.
- When information intended to be used as evidence is inconsistent with other information or evidence.

A277. The relevance of information intended to be used as evidence may be affected by the period of time to which the information relates. For example, the relevance of such information may change based on the passage of time or due to events or conditions, such as the identification of new information. Such circumstances may occur when the practitioner identifies information from an alternative or more credible source which negates, or causes doubt about, the relevance of the initial information intended to be used as evidence.

A278. In cases of doubt about the reliability of information or indications of possible fraud, this ISSA requires the practitioner to investigate further and determine what modifications or additions to procedures are necessary to resolve the matter. Doubts about the reliability of information from management may indicate a risk of fraud.

Planning

Overall Strategy and Engagement Plan (Ref. Para. 94)

Planning Activities

A279. Adequate planning helps to:

- Devote appropriate attention to important areas of the engagement;
- Identify potential problems on a timely basis and properly organize and manage the engagement in order for it to be performed in an effective and efficient manner;
- Properly assign work to engagement team members, and facilitate the direction and supervision of engagement team members and the review of their work; and
- When applicable, coordinate work done by other practitioners and experts.

A280. Planning involves the engagement leader, other key members of the engagement team, and any key practitioner's external experts developing:

(a) An overall strategy for the scope, timing and direction of the assurance engagement; and

(b) An engagement plan, consisting of a detailed approach for the nature, timing and extent of procedures to be performed, and the reasons for selecting them.

A281. The nature and extent of planning activities will vary with the engagement circumstances. Examples of matters that may be considered include:

- The characteristics of the entity and its activities;
- Whether the engagement is a limited assurance engagement, reasonable assurance engagement or a combined limited and reasonable assurance engagement.
- The nature of the sustainability matters.
- Whether there are sustainability matters that may also relate to matters disclosed in the entity's financial statements and, if so, whether communication with the auditor of the financial statements, if not prohibited by law or regulation, may be useful for planning the assurance engagement (e.g., to inform each other about common sustainability matters that may be susceptible to risks of misstatement, or to discuss other matters that may be identified during the course of the respective engagements). If such matters are identified, communication between the practitioner and the auditor of the financial statements may take place at appropriate times throughout the assurance engagement. In some cases, authorization from management may be needed to share the entity's information with the auditor of the financial statements.
- The expected timing and the nature of the communications required with management or those charged with governance.
- The reporting boundary.
- The practitioner's understanding of the entity and its environment, including the risks that the disclosures may be materially misstated due to error or fraud.
- The intended users and their information needs.
- The nature, timing and extent of resources necessary to perform the engagement, such as expertise required, including the nature and extent of the involvement of experts.
- If the entity has an internal audit function, the impact on the engagement.

A282. Information obtained in the acceptance and continuance process may assist the engagement leader in planning and performing the engagement. Such information may include:

- Information about the size, complexity and nature of the entity, including the industry in which it operates and the applicable criteria;
- The entity's timetable for reporting;
- If the assurance engagement relates to a group, the nature and extent of the control relationships between the entity and other entities within the group;
- Relevant knowledge gained on other engagements performed by the engagement team for the entity; and
- Whether there have been changes in the entity or in the industry in which the entity operates since the previous assurance engagement that may affect the nature of resources required, as well as the manner in which the work of the engagement team will be directed, supervised and reviewed.

A283. The practitioner may decide to discuss elements of planning with the entity when obtaining a preliminary knowledge of the engagement circumstances, determining the scope of the engagement or to facilitate the conduct and management of the engagement (e.g., to coordinate some of the planned procedures with the work of the entity's personnel). Although these discussions often occur, the approach to the engagement remains the practitioner's responsibility. When discussing the approach to the engagement, care is needed in order not to compromise the effectiveness of the engagement. For example, discussing the nature and timing of detailed procedures with the entity may compromise the effectiveness of the engagement by making the procedures too predictable.

A284. Planning is not a discrete phase, but rather a continual and iterative process throughout the engagement. As a result of unexpected events, changes in conditions, or evidence obtained, the practitioner may revise the approach to the engagement, and thereby the resulting planned nature, timing and extent of procedures.

Scalability

A285. In less complex engagements, the entire engagement may be conducted by the engagement leader (who may be a sole practitioner) or a very small engagement team. With a smaller team, coordination of, and communication between, team members is easier. Establishing the approach to the engagement in such cases need not be a complex or time-consuming exercise; it varies according to the size of the entity, the complexity of the engagement, including the sustainability matters and applicable criteria, the scope of the assurance engagement, and the size of the engagement team. For example, in the case of a recurring engagement, a brief memorandum prepared at the completion of the previous engagement, based on a review of the working papers and highlighting issues identified in the engagement just completed, updated in the current period based on discussions with appropriate parties, may be appropriate as the engagement strategy for the current engagement.

Nature, Timing and Extent of Planned Procedures

A286. The practitioner uses professional judgment in identifying the appropriate approach to planning and performing assurance procedures to obtain sufficient appropriate evidence. Understanding how the entity disaggregates or aggregates the sustainability information for purposes of reporting may assist the practitioner in planning the engagement. Matters that may be relevant in this regard include:

- The information needs of intended users (e.g., intended users may place more significance on information about certain sustainability topics, or aspects of topics, than others).
- Whether the applicable criteria address how the sustainability information should be presented, and how the entity has applied such criteria. Applicable criteria do not always specify in detail the required level of aggregation or disaggregation. They may, however, include principles for determining an appropriate level of aggregation or disaggregation in particular circumstances. For example, the applicable criteria may require the entity to report operational sites situated in areas of high biodiversity value by geographical location only. In other circumstances, the applicable criteria may require that information be disaggregated further to operational size and relative vicinity.
- The entity's reporting policies regarding preparation of the sustainability information, including its policies for classification and presentation of the sustainability information.
- Whether the disclosures pertain to one or more entities within the reporting boundary, and whether such entities are within or outside the reporting entity's control.
- The extent to which the sustainability information:
    - Is processed using common information systems and controls, and
    - Has a common unit of measure.
- How sustainability information is communicated internally to management or those charged with governance.
- Whether the disclosures relate to similar or interconnected topics, aspects of the topics, or characteristics (see also paragraphs A288-A289).
- How the entity's industry peers present the sustainability information.

A287. The practitioner may decide that the way management has aggregated or disaggregated the sustainability information for purposes of presentation is the most appropriate approach for the engagement. However, the practitioner may decide that there are other logical ways of grouping the sustainability information for purposes of planning and performing the engagement.

A288. In addition to the factors in paragraph A286, preliminary expectations about the risks of material misstatement may also be relevant to the practitioner's decision about grouping the sustainability information. For example, if misstatements were identified in the information for certain topics or aspects of topics in previous assurance engagements, the practitioner may decide that the information for those topics or aspects of topics needs to be considered separately.

A289. The practitioner's decision about grouping the entity's disclosures for purposes of planning and performing the engagement, and the manner in which it is done, involves professional judgment. Given the diverse nature of sustainability information, some topics and aspects of topics are more capable of being grouped than others. In addition, care is needed when grouping disclosures so that risks of material misstatement are identified and responded to appropriately.

> Examples of possible ways for the practitioner to group the disclosures:
>
> - By topics: All disclosures on climate; all disclosures on labor practices.
> - By aspects of topics: All disclosures regarding risks and opportunities (regardless of the topic); all disclosures regarding targets.
> - By topic and aspect of topic: All disclosures regarding targets for climate; all disclosures regarding scenario analysis for climate.

- By characteristics: All disclosures that are qualitative; all disclosures that are forward-looking; all disclosures that are historical.
- By characteristics by aspect of topic: All disclosures regarding targets that are judgmental; all disclosures regarding targets that are historical.

Overall Engagement Strategy and Engagement Plan for Group Sustainability Assurance Engagements

Sustainability Information on Which Assurance Work Will Be Performed (Ref: Para. 95(a))

A290. For a group sustainability assurance engagement, the determination of the information on which assurance work will be performed is a matter of professional judgment depending on the source of the information (i.e., the entities or business units to which the information relates). Matters that may influence the practitioner's determination include, for example:

- The nature and extent of disaggregation of the sustainability information. The matters described in paragraph A286 may be helpful in this regard.
- Whether there are specific locations at which procedures may need to be performed to obtain sufficient appropriate evidence for sustainability information that is important to intended users (e.g., if information about occupational health and safety is of particular importance to users and such information is confined to one or two entities or business units).
- The nature and extent of misstatements or control deficiencies identified at entities in prior sustainability assurance engagements.

Resources Needed to Perform the Engagement (Ref: Para. 95(b))

A291. Matters that may influence the practitioner's determination of the resources needed to perform a group sustainability assurance engagement, including component practitioner(s), include, for example:

- Whether sufficient appropriate evidence is expected to be available from records held by group management, taking into account:
  - The practitioner's understanding of the entity and its environment.
  - The entity's system of internal control, including the information system, and its degree of centralization. For example, the need to involve a component practitioner may be greater when the system of internal control is decentralized.
- Whether the practitioner is aware of work that has been performed, or will be performed, on sustainability information that has been aggregated from other entities within the entity's control.
- The geographic dispersion of the entities or business units from which information is aggregated.
- Management's process for obtaining information from the value chain. In some circumstances, the criteria may permit management to estimate the information to be reported by using sector-average data and other proxies if management is unable to obtain the information after making reasonable efforts to do so.
- Access arrangements, or any restrictions on access to information. For example, using the work of a component practitioner may be necessary if the practitioner's access to information from an entity in a particular jurisdiction is restricted.

- The knowledge and experience of the engagement team. For example, a component practitioner may have greater experience and a more in-depth knowledge than the practitioner about local laws or regulations, business practices, language and culture.
- Previous experience of using the work of component practitioner(s).

A292. In determining the nature and extent of evidence to be obtained in relation to sustainability information from group components or value chain components, the following procedures may be considered by the practitioner:

- Inspecting records and documents held by the group: The reliability of this evidence is determined by the nature and extent of the records and supporting documentation retained by the entity. In some cases, the group may not maintain independent detailed records or documentation of specific sustainability matters relating to group components, and in most cases will not do so with respect to value chain components.
- Inspecting records and documents at the component: The practitioner's access to the records of a component may be established as part of the contractual or other arrangements between the group and the component. This is more likely to be the case for group components.
- Testing management's process for obtaining information from value chain components: Due to the limitations that may exist in obtaining information from the value chain, the practitioner's procedures may in some cases be limited to evaluating whether management has complied with the requirements of the criteria, and testing the reasonableness of such information. The practitioner may also seek to obtain evidence from the work of another practitioner if work has been performed on that information. Regardless of any limitations that may exist in obtaining information from the value chain, the practitioner is required to obtain sufficient appropriate evidence. See also paragraphs A255-A256.
- Obtaining confirmations of sustainability information from the component:
    - If the group maintains independent records of sustainability information, confirmation from the component corroborating information in the group entity's records may constitute reliable evidence.
    - If the group does not maintain independent records, information obtained in confirmations from the component is merely a statement of what is reflected in the records maintained by the component. Therefore, such confirmations do not, taken alone, constitute sufficient appropriate evidence. In these circumstances, the practitioner may consider whether an alternative source of independent evidence can be identified.
- Performing analytical procedures on the records maintained by the group or on the information received from the component: the effectiveness of analytical procedures is likely to vary by disclosure or assertion and will be affected by the extent and detail of information available.

Whether to Obtain Evidence from the Work Performed by Another Practitioner(s) (Ref: Para. 95(c))

A293. If the practitioner plans to use a one-to-many report of another practitioner as evidence, paragraph 51 requires the practitioner to evaluate whether the description of the procedures performed and the results thereof are appropriate for the practitioner's purposes. However, the use of such a report does not alter the practitioner's responsibility to obtain sufficient appropriate evidence to provide a reasonable basis to support the practitioner's assurance conclusion on the sustainability information of the group.

Materiality (Ref. Para. 97-99)

A294. The practitioner's consideration or determination of materiality, as applicable, is relevant when performing risk assessment procedures, determining the nature, timing and extent of further procedures, and evaluating whether the sustainability information is free from material misstatement.

A295. Considering materiality for qualitative disclosures involves the practitioner actively reflecting upon factors that may lead to potential material misstatements (see paragraph A302).

A296. In considering or determining materiality, the practitioner considers disclosures that may be important to intended users. The practitioner's risk assessment procedures are designed and performed to identify and assess risks of material misstatement at the disclosure level (for limited assurance) or at the assertion level for the disclosures (for reasonable assurance). Therefore, judgments about materiality and the nature and likelihood of potential misstatements are relevant to the practitioner's approach, including the way in which the sustainability information is grouped for planning and performing the engagement, as explained in paragraphs A286-A289.

A297. Professional judgments about materiality are made in light of surrounding circumstances, but are not affected by the level of assurance. That is, for the same intended users and purpose, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement because materiality is based on the information needs of intended users.

A298. The framework criteria may include a discussion of the concept of materiality that provides a frame of reference for consideration or determination of materiality by the practitioner. In the absence of materiality being addressed in the framework criteria, the following principles may be applied:

(a) Judgments about matters that are material to intended users of the sustainability information are based on a consideration of the common information needs of intended users as a group.

(b) Misstatements, including omissions, are considered material if they, individually or in the aggregate, could reasonably be expected to influence decisions of intended users taken on the basis of the sustainability information.

A299. Materiality is a matter of professional judgment and is affected by the practitioner's perception of the common information needs of intended users as a group. In this context, it is reasonable for the practitioner to assume that intended users:

(a) Have a reasonable knowledge of the sustainability matters, and a willingness to study the sustainability information with reasonable diligence;

(b) Understand that the sustainability information is prepared and assured to appropriate levels of materiality and have an understanding of any materiality concepts included in the applicable criteria;

(c) Understand any inherent uncertainties involved in measuring or evaluating the sustainability matters; and

(d) Make reasonable decisions on the basis of the sustainability information.

Unless the engagement has been designed to meet the particular information needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered.

> Example:
>
> The entity operates globally in various industries, including health care and consumer goods. The entity engaged an external consulting firm to gather data on stakeholders' perspectives regarding the entity's sustainability strategy. The entity took an approach to first identify the most relevant stakeholder groups, which included "customers, suppliers, non-profit organizations, corporate/private sector, academics, consultants, government, media, finance, trade associations, and think tanks." The entity then obtained direct feedback on how its sustainability strategy affected people, wider communities and the environment. After gathering this data, the entity analyzed it to determine what issues were important to those surveyed and reported on those areas.

A300. Materiality relates to the sustainability information within the scope of the assurance engagement. Therefore, when the engagement covers some, but not all, of the sustainability information, materiality is considered in relation to only the sustainability information that is within the scope of the assurance engagement.

A301. Not all disclosures involve the same materiality considerations. Ordinarily, materiality is considered or determined for different disclosures. For different disclosures, the same intended users may have different information needs, a different tolerance for misstatement, or the disclosures may be expressed using different units of measure. Considering qualitative factors may help the practitioner to identify disclosures that may be more significant to the intended users. For example, intended users may place more importance on information about food or drug safety than they do on information about the recycling of non-hazardous waste because the consequences of poor safety standards in food or drug production are likely to be more serious to human health than those for not recycling non-hazardous waste. They may, therefore, have a lower tolerance for misstatement of information about food or drug safety than about recycling of non-hazardous waste.

Qualitative Factors (Ref. Para. 97)

A302. Examples of factors that may be relevant to the practitioner's consideration of materiality for qualitative disclosures include:

- The number of persons or entities affected by, and the severity of the effect of, the sustainability matter. For example, a hazardous waste spill may impact a small number of people, but the effect of that spill could lead to serious adverse consequences to the environment.
- The interaction between, and relative importance of, multiple topics and aspects of the topics.
- The form of the presentation of the sustainability information when the applicable criteria allow for variations in the presentation.
- The nature of a potential misstatement and when it would be considered material. For example, the nature of observed deviations from a control when the sustainability information is a statement that a process exists, or the control is effective.
- Whether a potential misstatement could affect compliance with law or regulation, including whether there is an incentive or pressure on management to achieve an expected target or outcome. For example, a practitioner may consider a potential misstatement to be material if it affected a threshold at which a carbon tax would be payable by the entity.

- Whether a potential misstatement would be significant based on the practitioner's understanding of known previous communications to the intended users on matters relevant to their information needs, for example, in relation to the expected outcome of goals or targets, the degree to which a potential misstatement would impact the entity achieving the goal or target.
- When the sustainability matter relates to a governmental program or public sector entity, whether a particular aspect of the program or entity is significant with regard to the nature, visibility and sensitivity of the program or entity.
- If the applicable criteria include the concept of due diligence regarding impacts, the nature and extent of those impacts. For example, a practitioner may consider whether the entity's disclosures omitted or distorted the actions taken to prevent or mitigate negative impacts or ignored additional negative impacts, or the entity's actions to prevent or mitigate negative impacts were not effective.
- For narrative disclosures, whether the level of detail of the description or the overall tone of the words used to describe the matter, may give a misleading picture to users of the sustainability information.
- How the presentation of the information influences users' perception of the information. For example, when management presents the disclosures in the form of graphs, diagrams or images, materiality considerations may include whether using different scales for the x- and y-axes of a graph may be potentially misleading.

Considerations for Materiality for Quantitative Disclosures (Ref. Para. 97(b))

A303. Quantitative factors relate to the magnitude of misstatements relative to the disclosures, if any, that are:

(a) Expressed numerically; or

(b) Otherwise related to numerical values (e.g., the number of observed deviations from a control may be a relevant quantitative factor when the sustainability information is a statement that the control is effective).

A304. Qualitative factors may also be relevant when determining materiality for quantitative disclosures. Example of qualitative factors are provided in paragraph A302.

A305. For disclosures that are quantitative (e.g., a key performance indicator expressed in numerical terms), materiality may be determined by applying a percentage to the reported metric, or to a chosen benchmark related to the disclosure.

Examples of thresholds may include x% of investment in community projects (in hours or monetary terms), y% of energy consumed (in kWh), or z% of land rehabilitated (in hectares).

A306. Factors that may affect the identification of an appropriate benchmark and percentage include:

(a) The elements of the disclosure. For example, if there is an element that is likely to be the focus of intended users, it may be the appropriate benchmark.

(b) The relative volatility of the benchmark. For example, if the benchmark varies significantly from period to period, it may be appropriate to set materiality relative to the lower end of the fluctuation range even if the current period is higher.

(c) The requirements of the applicable criteria. If the applicable criteria specify a percentage threshold for materiality, this may provide a frame of reference to the practitioner in determining materiality for the disclosure.

A307. The applicable criteria may require disclosures of historical cost financial information. For example, topics reported may include community investment, training expenditures, or taxes by jurisdiction. These may also be reported in the entity's financial statements. The practitioner, or another practitioner, may be engaged to audit those financial statements (see also paragraph A14). The materiality used for these aspects of the disclosures need not be the same as the materiality used in the audit of the entity's financial statements.

When the Entity is Required to Apply Both Financial Materiality and Impact Materiality (Ref: Para. 98)

A308. If double materiality, as described in paragraph A337 is required to be applied by the reporting framework or entity-developed criteria, paragraph 98 requires the practitioner to take into account both financial materiality and impact materiality perspectives when considering or determining materiality for purposes of planning and performing procedures and determining whether identified misstatements are material, so that:

(a) For quantitative disclosures, ordinarily the lower level of materiality for financial or impact materiality would be used; and

(b) For qualitative disclosures, when applying the factors in paragraph A302 and other misstatement considerations in paragraphs A486-A488, ordinarily the greater level of detail needed in the materiality for financial or impact materiality would be used.

Performance Materiality (Ref: Para. 99)

A309. Performance materiality may be used during different stages of the assurance engagement. For example, performance materiality may be useful to help identify and assess risks of material misstatement at the disclosures level (in a limited assurance engagement), or to help identify and assess risks of material misstatement at the assertion level for disclosures (in a reasonable assurance engagement) and to determine the nature, timing and extent of further procedures.

A310. For quantitative disclosures, planning the engagement solely to detect individually material misstatements overlooks aggregation risk, which is the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. Aggregation risk arises because the sustainability information may be disaggregated, and the practitioner may be designing and performing assurance procedures separately on that disaggregated information. It may therefore be appropriate when planning the nature, timing and extent of procedures for the practitioner to:

(a) Determine performance materiality for quantitative disclosures to reduce aggregation risk to an appropriately low level;

(b) Consider what types of errors or omissions would potentially constitute a material misstatement when aggregated with other misstatements.

A311. The determination of performance materiality is not a simple mechanical calculation and involves the exercise of professional judgment. It is affected by the practitioner's understanding of the entity that is updated during the performance of the risk assessment procedures. Factors the practitioner may take into account in setting performance materiality include the following:

- The extent of disaggregation of the disclosures. For example, in a group engagement, as the extent of disaggregation across components increases, a lower performance materiality ordinarily would be appropriate to address aggregation risk. The relative significance of the component to the reporting entity may affect the extent of disaggregation (e.g., if a single component represents a large portion of the reporting entity, there likely may be less disaggregation across components).

- Expectations about the nature, frequency and magnitude of misstatements of the disaggregated disclosures, including those identified in previous engagements.

A312. In some cases, risk assessment or further procedures may be performed by the practitioner on a quantitative disclosure as a single population (i.e., not disaggregated). In such cases, performance materiality used for purposes of performing these procedures is the same as materiality.

A313. Performance materiality does not address misstatements that would be material solely due to qualitative factors that affect their significance. However, designing procedures to increase the likelihood of the identification of misstatements that are material solely because of qualitative factors, to the extent it is possible to do so, may also assist the practitioner in addressing aggregation risk.

Revision of Materiality as The Engagement Progresses (Ref. Para. 100)

A314. Materiality may be revised as a result of a change in circumstances during the assurance engagement (for example, the disposal of a major part of the entity's business), new information, or a change in the practitioner's understanding of the entity and its operations as a result of performing procedures. For example, it may become apparent during the engagement that the percentage of significant product categories for which customer health and safety impacts are assessed for improvement is likely to be substantially different from that expected during planning. If during the engagement the practitioner concludes that a different materiality is appropriate, it may also be necessary to revise performance materiality or the nature, timing and extent of further procedures.

Risk Assessment Procedures

Designing and Performing Risk Assessment Procedures (Ref: Para. 102L-104)

A315. Risk assessment procedures are part of an iterative and dynamic process. Initial expectations may be developed about risks of material misstatement, which may be further refined as the practitioner progresses through the engagement, or if new information is obtained. Risk assessment procedures by themselves do not provide sufficient appropriate evidence on which to base the assurance conclusion.

A316. The nature and extent of risk assessment procedures will vary based on whether it is a limited or reasonable assurance engagement, the nature and circumstances of the entity (e.g., the formality of the entity's policies or procedures, and processes and systems), the nature and complexity of the sustainability matters and the characteristics of the events or conditions that could give rise to material misstatements. The practitioner uses professional judgment to determine the nature and extent of the risk assessment procedures to be performed to meet the requirements of this ISSA as appropriate to the level of assurance to be obtained. The depth of understanding that is required by the practitioner is less than that possessed by management in managing the entity and is less for a limited assurance engagement than for a reasonable assurance engagement.

A317. The type of risk assessment procedures performed by the practitioner may include the following:

(a) Inquiries of management, of appropriate individuals within the internal audit function (if the function exists), and of others within the entity who, in the practitioner's judgment, may have information that is likely to assist in identifying and assessing risks of material misstatement, whether due to fraud or error;

(b) Analytical procedures; and

(c) Observation and inspection.

A318. Information obtained by the practitioner through inquiries may provide important evidence (e.g., to support the required understanding of the entity and its environment and the components of the entity's system of internal control); however, for a reasonable assurance engagement, inquiry alone ordinarily is not sufficient to identify and assess risks of material misstatement at the assertion level.

A319. Designing and performing risk assessment procedures may involve obtaining evidence from multiple sources including:

(a) Interactions with management, those charged with governance, and other key entity personnel, which may include personnel within the entity who work in functions relevant to the sustainability information (such as Human Resources) or internal auditors.

(b) Certain external parties such as regulators, whether obtained directly or indirectly.

(c) Publicly available information about the entity and its industry, for example, entity-issued press releases, materials for analysts or investor group meetings, analysts' reports, or information about sustainability matters.

A320. The practitioner may perform further procedures concurrently with risk assessment procedures when it is efficient to do so.

Example:
• Evidence obtained that supports the identification and assessment of risks of material misstatement may also support the evaluation of the operating effectiveness of controls.

Considering Information from Engagement Acceptance and Continuance Procedures (Ref: Para.103)

A321. Paragraph 74 requires the practitioner to obtain a preliminary knowledge of the engagement circumstances to provide an appropriate basis for establishing whether the preconditions for the engagement are present. This preliminary knowledge ordinarily is not sufficient to fulfill the requirements in paragraphs 102L and 102R, but may provide important evidence to support the required understanding. The practitioner may supplement the understanding of the applicable criteria obtained in accepting the engagement when performing risk assessment procedures with information from, for example:

- When applicable, other engagements performed by the engagement leader for the entity, such as the audit of financial statements or verification of specific matters (e.g., verification of water consumption for a significant operation within the entity).
- Previous experience with the entity, if such information remains relevant and reliable as evidence for the current engagement.

Engagement Team Discussion (Ref: Para. 104)

A322. Discussions between the engagement leader and other key members of the engagement team, and any key practitioner's external experts may:

- Provide an opportunity for more experienced engagement team members, including the engagement leader, to share their insights based on their knowledge of the entity. Sharing information contributes to an enhanced understanding by all engagement team members.
- Allow the engagement team members to exchange information about how and where the sustainability information might be susceptible to material misstatement due to fraud or error.

- Assist the engagement team in planning and performing the engagement.

A323. When the engagement is carried out by a single individual, such as a sole practitioner, consideration of the matters referred to in paragraph 104 nonetheless may assist the practitioner in identifying and assessing risks of material misstatement.

Understanding the Sustainability Matters and the Sustainability Information (Ref: Para. 105)

A324. The characteristics of events or conditions that could give rise to a material misstatement of the disclosures may include complexity, judgment, change, uncertainty, or susceptibility to misstatement due to management bias or fraud, thus resulting in susceptibility of the disclosures to material misstatement, whether due to fraud or error.

A325. Material misstatements due to fraud or management bias in sustainability information may relate to matters such as the following:

- Misstating sustainability information (including omitting information) to avoid penalties or fines, potentially aggressive or overly optimistic internal or external goals, intentionally inaccurate or misleading product or corporate public statements or claims.
- Omitting sustainability matters when identifying the matters to be included in the sustainability information, that may be unfavorable or for which the information is difficult to obtain, even though those matters are material to intended users.
- Misstating sustainability information to enable the entity to be favorably considered in relation to future endeavors, or to be a factor in funding, supplier or customer arrangements or negotiations.
- Misstating sustainability information to reduce carbon tax liabilities or overstate carbon credits created.
- Intentionally reporting sustainability information relating to performance or compensation incentives in a biased way in order to influence the outcome of the performance reward or compensation.
- Pressures linked to obtaining certain credentials or recognitions (e.g., a ‘green’ seal or rating), or to meet certain contractual conditions.
- Immature systems of internal control over sustainability reporting.

A326. The characteristics of events or conditions that could give rise to risks of material misstatement may be different for different disclosures. For example:

- The risks of material misstatement related to information about the entity’s waste generated in the entity’s own activities may be different from the risks of material misstatement related to information about the waste generated upstream or downstream in the entity’s value chain.
- The risks of material misstatement in historical quantitative information may be different from the risks of material misstatement in forward-looking qualitative information.

A327. The sustainability matters may be complex to measure or evaluate or be subject to uncertainties. For example, potential climate-related risks, the likelihood of their occurrence, and their expected short, medium, and long-term impacts on an entity and its supply chain may be both complex to measure and evaluate and subject to a high degree of uncertainty. As a result of the inherent uncertainties, the risk of material misstatement of disclosures may be higher, or it may be difficult to identify and assess the risks of material misstatement of the sustainability information.

Determining the Suitability of the Applicable Criteria (Ref: Para. 106)

A328. Determining the suitability of the applicable criteria during the engagement builds on the preliminary knowledge obtained and discussion with appropriate party(ies) in evaluating their suitability prior to acceptance or continuance of the engagement, and includes determining whether the criteria exhibit the characteristics of suitable criteria in paragraph 77 (see also paragraph A202). The practitioner's risk assessment procedures are different in nature and extent from the procedures that may be sufficient for acceptance or continuance of the engagement.

A328A. If the applicable criteria comprise framework criteria that are presumed to be suitable, as described in paragraph A199, it may be sufficient for the practitioner to determine that the entity has applied such criteria in preparing the sustainability information. In other circumstances, the practitioner may consider whether the evaluation of the criteria at the acceptance and continuance stage remains appropriate for the purposes of the practitioner's risk assessment procedures. If the practitioner's evaluation of the criteria is no longer appropriate, a more detailed determination of the suitability of the criteria is required in accordance with paragraph 106. This may be the case, for example, if entity-developed criteria are available only after the engagement is accepted, or if the entity applies criteria in preparing the sustainability information that differ from what the practitioner anticipated prior to acceptance or continuance of the engagement. This may be due to a range of factors, for example:

- The criteria initially identified are no longer suitable for the entity's circumstances.
- Changes in comparable industry practice.
- New or revised criteria being available.
- The entity applies more precise criteria.
- The entity identifies insufficient specificity in the framework criteria, necessitating entity-developed criteria to be developed.

A328B. Determining the suitability of the applicable criteria and evaluating the appropriateness of their application assists the practitioner in identifying the susceptibility of the disclosures to misstatement. For example, the practitioner may:

- Identify elements of the applicable criteria that may be more susceptible to incorrect interpretation and application by the entity in preparing the sustainability information.
- Identify where the entity has the ability to exercise judgment in applying the applicable criteria, and therefore may give rise to risks of material misstatement due to inappropriate judgments in the circumstances of the entity.
- Identify aspects of the applicable criteria that may be more susceptible to manipulation, for example, when the entity is permitted to prepare the information on a comply or explain basis, provided the entity has a reasonable basis for doing so.
- Determine that the entity's process for identifying or developing and applying the applicable criteria is lacking, which may give rise to risks of material misstatement relating to the suitability or appropriate application of the applicable criteria in the entity's circumstances.

A329. Framework criteria may not be considered suitable on their own (e.g., may be incomplete or subject to interpretation in application). Therefore, the entity may need to supplement the framework criteria so that the applicable criteria are suitable. The process of developing the applicable criteria and applying it to the sustainability matters may be complex, require judgment, and may be susceptible to bias. The determination required by paragraph 106 may result in the practitioner identifying disclosures where there is an increased susceptibility to misstatement or cause the practitioner to re-evaluate the suitability of the applicable criteria.

A330. The determination of the suitability of the applicable criteria may include understanding:

- The uncertainties and complexities associated with identifying the framework criteria, and any entity-developed criteria used to supplement the framework.
- The criteria for the entity's process to identify sustainability information to be reported.
- The criteria for identifying the reporting boundary, and whether this differs for each disclosure.
- If applicable, how the entity develops its own criteria, including criteria used to supplement the framework criteria.
- The controls over the entity's process for identifying or developing and applying the applicable criteria.
- Whether there are any relief provisions. Such relief may be in relation to disclosure obligations over a certain period (e.g. an entity is only required to provide environmental information for the first three years of reporting), or in respect to data and information required to prepare the sustainability information (e.g., to address concerns about initial costs and resourcing constraints in obtaining required information regarding upstream and downstream value chain information).

A331. Understanding the process for identifying or developing and applying the applicable criteria, including the entity's process to identify sustainability information to be reported, may also help the practitioner determine the suitability of the applicable criteria, including whether the criteria:

- Address the purpose of the sustainability information.
- Are transparent.
- Involve engagement with intended users or their representatives in identifying their information needs for decision-making.
- Address how the criteria are applied in the entity's circumstances, including the selection and application of reporting policies consistent with the applicable criteria.
- Provide appropriate reasons for using the criteria.
- Consider if the criteria are appropriately specific regarding how the sustainability matters should be measured or evaluated.

Specific Considerations for Determining the Suitability of Criteria for Qualitative Information (Ref: Para. 77(c), 106)

A332. In some circumstances, the practitioner may determine that the criteria for qualitative information are unsuitable. For example, not all the characteristics for suitable criteria are exhibited because the criteria lack specificity or criteria for the qualitative information do not exist. In such circumstances, the practitioner may consider:

- Requesting that the entity develop suitable criteria.
- Requesting that the entity not report the information that would result from applying the unsuitable criteria, but if the entity decides to report that information, clearly identifying the information as other information that is not within the scope of the assurance engagement, and performing procedures in accordance with paragraphs 170-176.

- Whether the information may be misleading, and the impact on acceptance and continuance of the engagement.
- The impact on the assurance conclusion.

Specific Considerations for Determining the Suitability of Criteria for Processes, Systems and Controls (Ref: Para. 77(c), 106)

A333. If sustainability information on processes, systems and controls is subject to the assurance engagement, the practitioner may consider whether the criteria encompass the following:

(a) If the assurance conclusion covers the description of the entity's process, systems or controls:

(i) The control objectives and controls designed to achieve those objectives;

(ii) The procedures and records, within both information technology and manual systems, by which the sustainability matters, and significant events and conditions, relevant to the sustainability information are recorded, processed, corrected as necessary, and transferred to the sustainability information reported.

(b) If the assurance conclusion covers the suitability of the design of the processes, systems or controls:

(i) Identification of the risks that threaten achievement of the control objectives stated in the description of the processes, systems or controls; and

(ii) Whether the controls identified in that description would, if operated as described, provide reasonable assurance about the achievement of the control objectives.

(c) If the assurance conclusion covers the operating effectiveness of the processes, systems or controls whether the controls were consistently applied as designed throughout the specified period.

Specific Considerations for Determining the Suitability of Criteria for Performance (Ref: Para. 77(c), 106)

A334. In evaluating whether the criteria to evaluate the entity's performance are suitable, the practitioner may consider whether the criteria encompass:

(a) Measures or benchmarks used to set the targets, key performance indicators, commitments or other goals against which performance is to be measured; and

(b) Methods of measurement or evaluation of the entity's performance.

Specific Considerations for Determining the Suitability of Criteria for Forward-looking Sustainability Information (Ref: Para. 77(c), 106)

A335. In evaluating whether the criteria to be applied in preparing the entity's forward-looking information are suitable, the practitioner may consider whether the criteria encompass:

(a) The basis of the assumptions to be made and the nature, sources and extent of uncertainty inherent in those assumptions; and

(b) The measurement or evaluation methods to be used for the forward-looking sustainability information to be prepared on the basis of the assumptions in (a).

Relevance of the Criteria (Ref: Para. 77(c)(i), 106)

A336. In evaluating whether the criteria are relevant, the practitioner may consider whether the criteria:

(a) Result in sustainability information that assists decision-making by the intended users.

(b) Were developed through a process, by the entity or an external party, that focused on identifying or evaluating whether the sustainability information assists decision-making by the intended users, including the general types of decisions that intended users are expected to make based on the purpose of the sustainability information.

(c) Address the inherent level of measurement or evaluation uncertainty in applying the criteria in the circumstances of the engagement, including whether the sustainability information that is subject to high inherent measurement or evaluation uncertainty will be accompanied by disclosures that make the nature and extent of the uncertainty clear.

(d) Specify the level of disaggregation or aggregation of the information or include principles for determining an appropriate level of aggregation or disaggregation in particular circumstances.

(e) Are consistent with those generally recognized to be appropriate in the context of the entity's industry or sector or there are justifiable reasons not to use such criteria (e.g., the entity develops more relevant criteria).

(f) Permit omissions of sustainability disclosures only in circumstances when it is appropriate to do so. For example, the criteria may allow the entity to exclude certain disclosures if:

- (i) The reporting processes have not yet fully matured, such that the information is incomplete or unavailable, and the criteria require the entity to disclose this fact and its reasons for omitting the disclosures.
- (ii) That disclosure is not applicable to the entity's circumstances.
- (iii) There are legal constraints preventing the disclosure.
- (iv) In extremely rare circumstances, the sustainability information is confidential, or the adverse consequences of disclosure would reasonably be expected to outweigh the public interest benefits of doing so, such as information that might prejudice an investigation into an actual, or suspected, illegal act.

(g) Are specific to the topics and aspects of the topics, that will result in information that assists decision-making by the intended users, such as whether the criteria for:

- (i) Processes, systems or controls includes, for example, control objectives to evaluate the suitability of their design (see also paragraph A333);
- (ii) Performance includes the targets, key performance indicators, commitments or goals against which performance is measured and methods of measurement or evaluation of that performance (see also paragraph A334);
- (iii) Forward-looking information includes the basis for evaluating the reasonableness of the underlying assumptions and methods of preparation based on those assumptions (see also paragraph A335); or
- (iv) Historical information includes methods of measurement or evaluation of the entity's activities.

Consideration of the relevance of the criteria when financial materiality or impact materiality apply (Ref: Para. 98, 106)

A337. Relevant criteria that assist the decision-making of intended users may relate to:

(a) Either:

(i) The material impacts of environmental, social and governance matters on the entity's strategy, business model and performance, which may be referred to as "financial materiality;" or

(ii) The material impacts of the entity's activities, products and services on the environment, society, or economy, which may be referred to as "impact materiality;" or

(b) Both financial materiality and impact materiality, which may be described by the applicable criteria as "double materiality."

Completeness of Criteria (Ref Para. 77(c)(ii), 106)

A338. In evaluating the completeness of the criteria, including entity-developed criteria to supplement any framework criteria used, the practitioner may consider whether they address:

- Topics or aspects of topics that could reasonably be expected to affect decisions of intended users, or cannot be as readily measured or evaluated as other topics or aspects of topics.
- The basis for significant judgments in preparing the sustainability information.
- The source of significant inherent uncertainties in applying the criteria.
- The reporting boundary.

Reliability of the Criteria (Ref: Para. 77(c)(iii), 106)

A339. In evaluating whether the criteria are reliable, the practitioner may consider:

- Whether the measurement or evaluation of the sustainability matters can be undertaken with the necessary degree of precision to be relevant in the engagement circumstances.
- Whether the criteria are based on definitions with little or no ambiguity.
- Whether applying the criteria allows for reasonably consistent measurement or evaluation of the sustainability matters when used in similar circumstances by different parties.
- The sources of the criteria and the process used to develop them.

Neutrality of the Criteria (Ref: Para. 77(c)(iv), 106)

A340. In evaluating whether the criteria are neutral, the practitioner may consider whether the criteria:

- Require a balanced disclosure of both favorable and unfavorable information and are not subject to management bias by excluding any topics or aspects of topics only on the basis that they may reflect poorly on the entity.
- Do not result in information that is misleading to the intended users in the interpretation of the sustainability information.
- Are consistent between reporting periods, unless there is a reasonable basis for the change.

- Address how the information is presented and disclosed, to reduce the opportunity for management bias.
- Are entity-developed (e.g., may be subject to management bias).

A341. When the criteria are not consistent with previous reporting periods, the practitioner may consider whether:

- The entity has a reasonable basis for the change, for example, the entity may be developing and improving its process to prepare the sustainability information and the entity-developed criteria may have been changed to reflect more appropriate or modern approaches, data or methods.
- The basis for the change is sufficiently disclosed and explained in the sustainability information.
- The criteria are different from those commonly used in the entity's industry or sector, as this may be an indicator of management bias.
- The change results in information that is always positive (e.g., management changes the criteria year on year so that the outcome looks more positive).

Understandability of the Criteria (Ref: Para. 77(c)(v), 106)

A342. In evaluating whether the criteria are understandable, the practitioner may consider whether the criteria:

- Are clear and unambiguous.
- Will enable the intended users to identify readily the main points being made and to infer appropriately whether they affect their decision-making.
- Will result in a presentation that does not obscure relevant information.
- Will result in clear presentation of the sustainability information in a way that effectively summarizes and draws attention to key features of the information reported.
- Will result in the sustainability information being coherent, easy to follow, clear and logical.
- Will result in sustainability information that can be readily located, for example, the information may be difficult to locate if it is spread across different reports, webpages or included by reference.
- Will result in sustainability information that is appropriately balanced between conciseness to be understandable and relevance.
- Will result in logical and comparable time periods, whether those be:
  - A point in time (e.g., for description or implementation of a process not covering the period).
  - Periods that have ended (e.g., for historical information).
  - Periods that end in the future (e.g., for strategy, targets or commitments).

Understanding the Entity's Reporting Policies (Ref: Para.107-107A)

A342A. Reporting policies are the bases, conventions, rules and practices applied by an entity in preparing and presenting the sustainability information. The entity's reporting policies are not criteria by themselves, but assist the entity in complying with the applicable criteria. The criteria need to encompass sufficient principles as the basis for the entity to select and apply reporting policies that are consistent with the underlying concepts in, and meet the objectives of, the requirements of the criteria, as explained in paragraph A2. If the existing criteria do not provide sufficient principles for the entity to select and apply reporting policies, criteria from another framework may need to be identified or entity-developed criteria may need to be developed. Matters that the practitioner may consider when obtaining an understanding of the entity's selection and application of reporting policies, including any changes and the reasons for those changes, may include:

- Reporting policies used by similar entities, such as those in the same industry or jurisdiction.
- The methods the entity uses to recognize, measure, present and disclose significant sustainability information, or to address unusual or exceptional circumstances.
- The effect of significant policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.
- Changes in the environment, such as changes in the applicable criteria, law and regulation or accepted interpretation of the criteria that may necessitate a change in the entity's reporting policies.
- Criteria and laws and regulations that are new to the entity and when and how the entity will adopt, or comply with, such requirements.

A342B. Example of the entity selecting and applying reporting policies in accordance with the framework criteria:

- A mining company reports sustainability information in accordance with a sustainability framework that requires specific disclosures on risks and opportunities related to human rights and rights of Indigenous Peoples for the metals and mining industry.
- In complying with the criteria, the entity also selects and applies reporting policies, including the methods used to disclose engagement processes and due diligence practices with respect to human rights and indigenous rights in areas of conflict to mitigate related risks.

Understanding the Entity and Its Environment

Understanding the Entity's Operations, Legal and Organizational Structure, Ownership and Governance, and Business Model (Ref: Para. 108(a))

A343. The practitioner uses professional judgment to determine the characteristics of the entity and its environment that are relevant to the sustainability information and therefore are necessary to understand. The practitioner's primary consideration is whether the understanding that has been obtained is sufficient to meet the objective of the risk assessment procedures. The practitioner's understanding may involve less effort when the scope of the assurance engagement is limited to certain sustainability information (e.g., discrete metrics). On the other hand, a broader understanding of the entity and its environment may be necessary if the scope of the assurance engagement addresses multiple topics or aspects of the topics. Similarly, the depth of understanding of the entity and its environment necessary for a limited assurance engagement may be less that the depth of understanding necessary in a reasonable assurance engagement.

A344. The practitioner's understanding of the entity and its environment may include an understanding of the following:

(a) The nature of the entity and its sustainability-related business risks, including:

(i) The nature of the operations included in the reporting boundary, including:

a. Whether the activities or operations within the reporting boundary are internal or external to the entity;

b. The contribution of each activity or operation to the sustainability information, including entities or operations within the value chain, if material to the sustainability information; and

c. The uncertainties associated with the quantities reported in the sustainability information.

(ii) Changes from the prior period in the nature of the entity, its business risks, or the reporting boundary, including whether there have been any mergers, acquisitions, disposals, or outsourcing of functions.

(iii) The frequency and nature of interruptions to operations.

(b) The maturity of the processes and controls over sustainability information and the extent to which they integrate the use of IT.

Understanding the Reporting Boundary (Ref: Para 108(b))

A345. Understanding the reporting boundary may require the analysis of complex organizational structures (e.g., multiple operating units in different jurisdictions), contractual relationships and activities within the entity's value chain. The way operations are organized may also have implications for the reporting boundary. For example, a facility may be owned by one party, operated by another, and process materials solely for a third party, but the sustainability activities of all three entities may be within the reporting boundary. Understanding activities within the reporting boundary help the practitioner:

- Understand whether the disclosures are affected by complexity, judgment, change, uncertainty, or susceptibility to misstatement due to management bias or fraud.
- Identify disclosures for which it may be necessary to use the work of others to obtain sufficient appropriate evidence.
- Identify the members of the engagement team and other parties with whom the engagement leader discusses the susceptibility of disclosures to material misstatements whether due to fraud or error.
- Consider or determine an appropriate materiality for the applicable disclosures.
- Determine the nature, timing and extent of further procedures.
- Identify disclosures where it may be difficult to obtain sufficient appropriate evidence and, as a result, the implications for the assurance report.

Understanding the Entity's Goals, Targets, or Strategic Objectives (Ref: Para. 108(c))

A346. Understanding goals, targets, or strategic objectives related to sustainability matters and measures used to assess the entity's performance may help the practitioner identify incentives and pressures that increase the susceptibility of the sustainability information to management bias or fraud.

Understanding the Legal and Regulatory Framework (Ref: Para. 109)

A347. The effect on the sustainability information of laws and regulations will vary. Those laws and regulations to which an entity is subject constitute the legal and regulatory framework. The provisions of some laws or regulations may have a direct effect on the sustainability information, in that they may determine the criteria to be applied or specify disclosures required to be included in an entity's sustainability information.

A348. Other laws and regulations may not have a direct effect on the determination of the disclosures in the sustainability information, but compliance with them may be fundamental to the operating aspects of the business. Non–compliance with laws and regulations that have a fundamental effect on the operations of the entity may have consequences for the entity's disclosures.

A349. To obtain an understanding of the legal and regulatory framework, and how the entity complies with that framework, the practitioner may, for example:

- Use the practitioner's existing understanding of the entity's industry, regulatory and other external factors;
- Update the understanding of those laws and regulations that establish criteria, frameworks, standards or guidance;
- Inquire of management as to other laws or regulations that may be expected to have a fundamental effect on the operations of the entity; and
- Inquire of management concerning the entity's policies or procedures regarding compliance with laws and regulations.

Inquiries and Discussion with Appropriate Parties (Ref: Para. 110)

A350. Inquiries of appropriate parties and, when appropriate, others within the entity may offer the practitioner varying perspectives in performing risk assessment procedures.

Examples:

- Inquiries directed towards those charged with governance may help the practitioner understand the extent of oversight by those charged with governance over the preparation of the sustainability information.
- Inquiries of management may help the practitioner to evaluate the appropriateness of the selection and application of the applicable criteria.
- Inquiries directed towards in-house legal counsel may provide information about matters such as litigation, compliance with laws and regulations, knowledge of fraud or suspected fraud affecting the sustainability information.
- Inquiries directed towards the risk management function (or inquiries of those performing such roles) may provide information about operational and regulatory risks that may affect the sustainability information.
- Inquiries directed towards IT personnel may provide information about system changes, system or control failures, or other IT-related risks.

A351. If an entity has an internal audit function, inquiries of the appropriate individuals within the function may assist the practitioner in understanding the entity and its environment and the entity's system of internal control, in identifying and assessing risks of material misstatement.

Understanding Components of the Entity's System of Internal Control (Ref: Para. 111L, 111R)

A352. Understanding components of the entity's system of internal control relevant to the sustainability matters and the preparation of the sustainability information assists the practitioner in identifying the types of misstatements that may occur and factors that affect risks of material misstatement in the disclosures.

A353. The level of formality of the entity's system of internal control, including the control environment, the entity's risk assessment process and process to monitor the system of internal control, may vary by size and complexity of the entity, and the nature and complexity of the sustainability matters and the applicable criteria.

A354. The nature and extent of the practitioner's understanding of the components of the entity's system of internal control may vary depending on the complexity of the assurance engagement and the nature and complexity of the sustainability matters. As the entity and sustainability matters become more complex, more extensive procedures may be necessary to obtain the understanding, for example, by performing a walkthrough to confirm inquiries of entity personnel. A walkthrough involves selecting events or conditions and tracing them through the applicable process in the information system.

A355L. In a limited assurance engagement, the practitioner uses professional judgment to determine the extent of understanding of the components of the system of internal control that is necessary to identify and assess the risks of material misstatement, whether due to fraud or error, at the disclosure level. It often will not be necessary to obtain a detailed understanding and the procedures to obtain the understanding may be less in extent, and of a different nature than those required in a reasonable assurance engagement. For example, the practitioner may obtain a sufficient understanding of the information system through inquiry in a limited assurance engagement but may need to perform a walk-through in a reasonable assurance engagement.

A356. In some circumstances, the sustainability matters may be related to controls (i.e., the controls are the aspects of the topics). For example, the sustainability information may describe the design, implementation, or effectiveness of controls over occupational health and safety. Paragraph 105 requires the practitioner to understand the sustainability matters (in this case, controls over occupational health and safety). In these circumstances, paragraphs 111L and 111R require the practitioner to obtain an understanding of the entity's system of internal control related to the processes used to design, implement, or operate the controls over occupational health and safety and the processes to prepare information about those controls.

A357. The practitioner's understanding of the relevant components of the entity's system of internal control may raise doubts about the practitioner's ability to obtain sufficient appropriate evidence on which to base the assurance conclusion or may indicate a need to withdraw from the engagement, if withdrawal is possible under applicable law or regulation. For example:

- Concerns about the integrity of those preparing the sustainability information may be so serious as to cause the practitioner to conclude that the engagement cannot be conducted.
- Concerns about the competence of management and the condition and reliability of an entity's records may cause the practitioner to conclude that it is unlikely that sufficient appropriate evidence will be available to support an unmodified conclusion on the sustainability information.

The Control Environment (Ref: Para. 112L, 112R)

A358. The practitioner's understanding of the control environment, such as how the entity demonstrates behavior consistent with the entity's commitment to integrity and ethical values, may assist the practitioner in identifying risks of material misstatement. For example, deficiencies in the control environment may result in risks of material misstatement in disclosures throughout the sustainability information.

A359R.The practitioner's evaluation of the control environment may assist the practitioner in identifying potential issues in the other components of the entity's system of internal control. This is because the control environment is foundational to the other components of the entity's system of internal control. This evaluation may also assist the practitioner in identifying and assessing the risks of material misstatement.

A360. The practitioner's understanding of the control environment may include understanding the controls, processes and structures that address:

- How management's oversight responsibilities are carried out, such as the entity's culture and management's commitment to integrity and ethical values.
- When those charged with governance are separate from management, the independence of, and oversight over, the entity's system of internal control by those charged with governance.
- The entity's assignment of authority and responsibility.
- How the entity attracts, develops, and retains competent individuals.
- How the entity holds individuals accountable for their responsibilities in the pursuit of the objectives of the entity's system of internal control.

A361. Information about the control environment in less complex entities may not be available in documentary form, in particular when communication between management and other personnel is informal, but the information may still be appropriately relevant and reliable in the circumstances. For example, the practitioner may observe the entity's past and current practices, and engagement with stakeholders. Such observations may contribute to the practitioner's understanding of the components of the entity's system of internal control, even if policies have not been documented formally.

The Entity's Risk Assessment Process (Ref: Para. 113L, 113R)

A362. Understanding the results of the entity's risk assessment process may assist the practitioner in:

(a) Identifying and assessing risks of material misstatement in the disclosures; and

(b) Obtaining an understanding of the sustainability matters and other engagement circumstances.

A363R. The practitioner's evaluation of whether the entity's risk assessment process is appropriate to the entity's circumstances allows the practitioner to understand where the entity has identified risks that may occur, and how the entity has responded to those risks. The practitioner's evaluation of how the entity identifies its risks, and how it assesses and addresses those risks, assists the practitioner in understanding whether the risks faced by the entity have been identified, assessed, and addressed as appropriate to the nature and complexity of the entity.

A364. In some cases, the criteria may require the entity to identify and provide information about sustainability-related risks and opportunities, or the process(es) by which sustainability-related risks and opportunities are identified, assessed and managed. Therefore, understanding the results of the entity's risk assessment process may also assist the practitioner in identifying and assessing risks of material misstatement related to the appropriate application of the applicable criteria by the entity. For example, if the practitioner identifies potential deficiencies in the entity's risk assessment process, the practitioner may determine that there is a heightened risk that sustainability matters required to be reported in accordance with the applicable criteria may not have been identified by the entity and therefore, the presentation or description of such matters in the sustainability information may be incomplete.

A365R. Not all risks identified by the entity give rise to risks of material misstatement. In understanding how management and those charged with governance have identified risks relevant to the preparation of the sustainability information, and decided about actions to address those risks, the practitioner may consider how management or, as appropriate, those charged with governance, have:

(a) Specified the entity's objectives with sufficient precision and clarity to enable the identification and assessment of the risks relating to the objectives;

(b) Identified the risks to achieving the entity's objectives and analyzed the risks as a basis for determining how the risks should be managed; and

(c) Considered the potential for fraud when considering the risks to achieving the entity's objectives.

A366. If the practitioner identifies risks that the entity failed to identify, and those risks are of a kind that the practitioner expects would have been identified by the entity's risk assessment process, it may be an indicator that the entity's risk assessment process is not appropriate to the entity's circumstances.

The Entity's Process for Monitoring the System of Internal Control (Ref: Para. 114L, 114R)

A367. Understanding the results of the entity's process for monitoring the system of internal control may assist the practitioner in:

(a) Identifying and assessing risks of material misstatement in the disclosures;

(b) Obtaining an understanding of the sustainability matters and other engagement circumstances; and

(c) Determining whether to obtain evidence from testing controls.

A368. Understanding the results of the entity's process for monitoring the system of internal control may provide information about deficiencies in controls; however, the absence of results of the entity's process for monitoring the system of internal control does not necessarily indicate that controls are operating effectively. The absence of results may be indicative of an ineffective process for monitoring the system of internal control.

A369R. Understanding the entity's process for monitoring the system of internal control relevant to the preparation of the sustainability information may involve understanding:

(a) Those aspects of the entity's process that address:

(i) Ongoing and separate evaluations for monitoring the effectiveness of controls, and the identification and remediation of control deficiencies identified;

(ii) The entity's internal audit function, if any, including its nature, responsibilities, and activities; and

(b) The sources of information used in the entity's process to monitor the system of internal control, and the basis upon which management considers the information to be sufficiently reliable for the purpose.

A370R. The practitioner's evaluation of the entity's process for monitoring the system of internal control assists the practitioner in understanding the other components of the entity's system of internal control. This evaluation may also assist the practitioner with identifying and assessing risks of material misstatement at the assertion level for the disclosures.

A371R. Matters that may be relevant for the practitioner to consider when understanding how the entity monitors its system of internal control include:

(a) The design of the monitoring activities, for example, whether it is periodic or ongoing monitoring;

(b) The performance and frequency of the monitoring activities;

(c) The evaluation of the results of the monitoring activities, on a timely basis, to determine whether the controls have been effective; and

(d) How identified deficiencies have been addressed through appropriate remedial actions, including timely communication of such deficiencies to those responsible for taking remedial action.

A372R. The practitioner may also consider how the entity's process to monitor the system of internal control addresses monitoring of information processing controls that involve the use of IT. This may include, for example:

(a) Controls to monitor complex IT environments that:

(i) Evaluate the continuing design effectiveness of information processing controls and modify them, as appropriate, for changes in conditions; or

(ii) Evaluate the operating effectiveness of information processing controls.

(b) Controls that monitor the permissions applied in automated information processing controls that enforce the segregation of duties.

(c) Controls that monitor how errors or control deficiencies related to the automation of sustainability reporting are identified and addressed.

A373R. In less complex entities, and in particular owner-manager entities, the practitioner's understanding of the entity's process to monitor the system of internal control is often focused on how management or the owner-manager is directly involved in operations, as there may not be any other monitoring activities.

A374R. For entities where there is no formal process, understanding the process to monitor the system of internal control may include understanding periodic reviews of information that are designed to contribute to how the entity prevents or detects misstatements.

The Information System and Communication (Ref: Para. 115-116)

A375. The practitioner uses professional judgment to determine which aspects of the information system are relevant to the sustainability matters and the preparation of the sustainability information and may make inquiries of the appropriate party(ies) about those aspects and perform other procedures, as necessary.

A376. The understanding of the information system may include an understanding of the entity's information processing activities, its data and information, the resources to be used in such activities and the policies or procedures that define, for the sustainability information:

(a) How data and information, including qualitative information, are captured, recorded, processed, reviewed, corrected, and presented, including whether, and if so, how, the entity centralizes activities relevant to sustainability reporting. Such policies or procedures may include internal verification processes whereby the data and information are checked by a reviewer for accuracy and completeness, and signed off to evidence that the review has taken place;

(b) Supporting records and other relevant information about the sustainability matters relating to the flow of information in the information system; and

(c) The processes used to prepare the sustainability information, including the aggregation process used, including, if any, aggregation adjustments.

A377. The practitioner's understanding of the information system may be obtained in various ways and may include:

(a) Inquiries of relevant personnel about the procedures used to initiate, record, process and report events and conditions related to the topics and aspects of the topics;

(b) Inspection of policy or process manuals or other documentation of the information system;

(c) Observation of the performance of the policies or procedures by the entity's personnel; or

(d) Selecting events or conditions and tracing them through the applicable process in the information system (i.e., performing a walk-through).

A378. The entity's information system and communication are likely to involve the use of IT to collect or process data and information. Entities may use complex IT applications, simple spreadsheets or paper-based records, or a combination of these. The information system includes the IT environment, IT applications and other aspects of the IT environment that are relevant to the flows and processing of information in the information system. The entity's use of IT applications or other aspects of the IT environment may give rise to risks arising from the use of IT. For example, changes in the flow of information within the information system may result from program changes to IT applications, or direct changes to data in databases involved in processing or storing that information.

A379. The information system and how the entity communicates in smaller or less complex entities are likely to be less sophisticated and are likely to involve a less complex IT environment than in larger and more complex entities. Less complex entities with direct management involvement may not need extensive descriptions of procedures, sophisticated records, or written policies. Understanding the relevant aspects of the entity's information system may therefore require less effort in an engagement for a less complex entity and may involve a greater amount of inquiry than observation or inspection of documentation. The need to obtain an understanding, however, remains important to provide a basis for the design of further procedures and may further assist the practitioner in identifying and assessing risks of material misstatement.

Understanding the entity's process to identify sustainability information to be reported (Ref: Para. 115(a))

A380. The practitioner may consider whether the entity's process to identify sustainability information to be reported includes:

(a) Identification of, or engagement with, the intended users, or the stakeholders they represent, to determine their information needs;

(b) The entity's selection or development of suitable criteria, which provides the basis for the identification of sustainability information to be reported prior to the consideration of materiality;

(c) The appropriate application of the criteria to identify sustainability information to be reported, including the identification of topics, aspects of topics and reporting boundary; and

(d) Filtering of the sustainability information to select material information to be reported.

A381. If the entity does not have a suitable process to identify sustainability information to be reported, then the topics or aspects of topics selected may be incomplete or include sustainability information that is not relevant or obscures material sustainability information. As the entity's process includes management judgment, there is risk of management bias when identifying the sustainability information to be reported. The greater the degree to which the reporting framework or law or regulation specifies in detail the sustainability information to be reported, the lower the risk of material misstatement may be as there is less opportunity for management bias.

A382. The extent of the practitioner's work effort in obtaining an understanding of the entity's process to identify sustainability information to be reported will depend on the nature and circumstances of the engagement. For some engagements, the reporting framework or law or regulation may specify sustainability information to be reported and the procedures may be limited to identifying those requirements and understanding whether the sustainability information required to be reported is included in the sustainability information. In other engagements, the framework or entity-developed criteria may not specify the sustainability information, or may only specify certain sustainability information to be reported and may set out the process the entity is required to follow to identify the sustainability information, or additional sustainability information to be reported. Alternatively, the entity may need to develop their own criteria for that process. In these circumstances, the entity's process is likely to be more complex and to impact the nature and extent of the practitioner's procedures.

Understanding how information from external sources is recorded, processed, corrected and incorporated (Ref: Para. 115)

A383. The understanding of how information from external sources is recorded, processed, corrected as necessary, and incorporated into the sustainability information may also include an understanding of:

(a) The nature and significance of the data or information provided by external sources;

(b) How the entity addresses the reliability of information from external sources, for example by:

(i) Monitoring information provided to, and received back from, the external source;

(ii) Considering the reputation of the external source; and

(iii) Considering whether there are other sources of similar information, and whether the information from such different available sources is aligned.

Evaluating the information system to support the preparation of the sustainability information (Ref: Para. 116)

A384. The understanding of the information system may also include an understanding of how the entity communicates significant matters that support the preparation of the sustainability information and related reporting responsibilities in the information system and other components of the entity's system of internal control:

(a) Between people within the entity, including how roles and responsibilities are communicated;

(b) Between management and those charged with governance;

(c) With intended users; and

(d) With external parties, such as regulatory authorities.

Control Activities (Ref: Para. 117, 118L)

A385. The practitioner's identification and evaluation of controls in the control activities component of the entity's system of internal control may focus on information processing controls, which are controls applied during the processing of information in the entity's information system that directly address risks to the integrity of information (i.e., the completeness, accuracy, and validity of information). However, the practitioner is not required to identify and evaluate all information processing controls.

A386. An assurance engagement does not require an understanding of all the controls related to each disclosure or to every assertion relevant to them.

A387. Examples of other controls for which it may be appropriate for the practitioner to obtain an understanding include:

- Controls that address risks of material misstatement assessed as higher on the spectrum of risk based on their likelihood and magnitude.
- Controls that are related to the assembly of, or adjustments to, the sustainability information.
- If the entity uses a service organization, controls at the entity that relate to the services provided by the service organization.

A388. Identifying IT applications and other aspects of the IT environment, related risks arising from the use of IT, and general IT controls in place to address those risks affects the practitioner's decisions on testing controls, assessing risks of material misstatement, testing information produced by IT applications, and designing further procedures.

A389. In identifying IT applications subject to risks arising from IT, the practitioner may consider the entity's automated controls, information storage and processing, and reliance on general IT controls. The extent of understanding and the number of applications subject to risks arising from the use of IT vary based on the entity's complexity. When the practitioner has identified IT applications that are subject to risks arising from IT, other aspects of the IT environment (for example network, operating systems, databases, and interfaces between IT applications) are likely to be identified because such aspects support and interact with the identified IT applications.

A390. Risks arising from IT may include unauthorized access, program changes, and inappropriate data changes, and their extent depends on the nature and characteristics of the IT applications and environment.

Design and Implementation of Controls (Ref: Para. 118L, 118R)

A391. Evaluating the design of an identified control involves the practitioner's consideration of whether the control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements (i.e., the control objective).

A392. The practitioner determines the implementation of an identified control by establishing that the control exists and that the entity is using it. There is little point in the practitioner assessing the implementation of a control that is not designed effectively. Therefore, the practitioner evaluates the design of a control first. An improperly designed control may represent a control deficiency.

A393. The practitioner may conclude that a control, which is effectively designed and implemented, may be appropriate to test in order to take its operating effectiveness into account in determining the nature, timing and extent of further procedures. However, when a control is not designed or implemented effectively, there is no benefit in testing it.

A394. When the practitioner plans to test the operating effectiveness of a control, the information obtained about the extent to which the control addresses the risk(s) of material misstatement is an input to the practitioner's risk assessment.

A395. Evaluating the design and determining the implementation of controls is not sufficient to test their operating effectiveness. However, the practitioner may plan to test the operating effectiveness of automated controls by identifying and testing general IT controls that provide for the consistent operation of the automated controls instead of testing the operating effectiveness of the automated controls directly. General IT controls that are not able to be reconfigured or changed by management provide for the consistent operation of an automated control.

A396. The practitioner may expect more formal documentation of the information system and controls when the information system and controls form part of the sustainability matters (e.g., when the sustainability information is about the entity's controls).

A397L. In accordance with paragraph 118L, in a limited assurance engagement, the practitioner is not required to understand the control activities component by evaluating the design of controls and determining whether they have been implemented, unless the practitioner plans to obtain evidence by testing the operating effectiveness of controls.

Identifying Control Deficiencies (Ref: Para. 119)

A398. If deficiencies are identified related to the control environment, this may affect the practitioner's overall expectations about the operating effectiveness of controls, and therefore the practitioner's plans to test the operating effectiveness of controls.

A399. When understanding the components of the entity's system of internal control, the practitioner may determine that certain of the entity's policies are not appropriate to the nature and circumstances of the entity. Such a determination may be an indicator that control deficiencies exist. The practitioner may consider the effect of those control deficiencies on the design of further procedures and whether to communicate the deficiencies to management or those charged with governance.

A400. Circumstances that may indicate that control deficiencies exist include matters such as the identification of:

- Fraud of any magnitude that involves senior management;
- Deficiencies in the control environment;
- Risks of material misstatement that were not identified by the entity's risk assessment process;
- The omission of sustainability matters from the sustainability information, that are required to be reported by the applicable criteria and that are material, when those sustainability matters were not identified by the entity's process to identify sustainability matters to be reported; and
- The inclusion of immaterial sustainability matters that obscure sustainability matters to be reported within the sustainability information

A401. If the practitioner's evaluation of the entity's control environment or other components of internal control raise doubts about the ability to obtain evidence on which to base the assurance conclusion, the practitioner may:

- Perform additional risk assessment procedures until evidence has been obtained to alleviate the practitioner's doubts;
- Withdraw from the engagement when permitted by law or regulation;
- Consider the implications for the practitioner's report.

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 120L, 120R)

A402. Identifying and assessing the risks of material misstatement involves professional judgment based on the practitioner's understanding of the sustainability matters and the sustainability information and the entity and its environment.

A403. Identifying and assessing the risks of material misstatement also involves the practitioner considering the potential for a misstatement occurring (i.e., its likelihood) and being material if it were to occur (i.e., whether the potential misstatement is of a magnitude or severity that could reasonably be expected to influence the decisions of users).

A404L. The identification and assessment of the risks of material misstatement at the disclosure level in a limited assurance engagement is less extensive than for a reasonable assurance engagement. This is the case because:

- The breadth and depth of the practitioner's understanding that forms the basis for risk identification and assessment is different because the risk assessment procedures in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement;
- The practitioner is not required to identify and assess risks of material misstatement at the assertion level in a limited assurance engagement; and
- The level of assurance obtained in a limited assurance engagement is substantially lower than the assurance obtained in a reasonable assurance engagement.

A405. The combination of the likelihood and magnitude of a potential misstatement determines where on the spectrum of risk the identified risk is assessed. Making this assessment informs the practitioner's design of further procedures to address the risk. The higher the combination of likelihood and magnitude, the higher the assessment of risk; the lower the combination of likelihood and magnitude, the lower the assessment of risk.

A406. The manner in which the practitioner groups the disclosures for purposes of planning and performing the engagement (see paragraphs A287-A289) affects how the practitioner identifies and assesses the risks of material misstatement.

A407L. For a limited assurance engagement, the practitioner's expectation about a misstatement occurring, and being material if it were to occur, is less specific than for a reasonable assurance engagement because it is based on more limited information, as explained in paragraph A404L. In addition, the practitioner's conclusion in a limited assurance engagement is expressed in terms of whether anything has come to the practitioner's attention that causes the practitioner to believe that the sustainability information is not fairly stated (or properly prepared), in all material respects, in accordance with the applicable criteria. Therefore, for a limited assurance engagement, if in the course of performing procedures to respond to the assessed risks, matters come to the practitioner's attention that indicate the sustainability information may be materially misstated, paragraph 147L requires the practitioner to perform additional procedures.

A408. In considering the magnitude of a possible misstatement, the practitioner may consider the qualitative and quantitative aspects of the possible misstatement (i.e., misstatements in a disclosure may be judged to be material due to size, nature or circumstances). The qualitative and quantitative factors in paragraphs A302 and A303, respectively, may be helpful in this regard.

A409. The practitioner's consideration of the magnitude of a potential misstatement in a qualitative disclosure may depend on the importance of that disclosure to the intended users. For example, intended users may place more importance on the entity's efforts to reduce carbon emissions than its efforts to enhance community engagement. Therefore, intended users may have a lower tolerance for a misstatement of disclosures about efforts to reduce carbon emissions than disclosures about efforts to enhance community engagement.

> Example:
>
> The practitioner may identify and assess a risk of misstatement in an entity's disclosure that its efforts to reduce carbon emissions includes enhancing its carbon capture and storage capacities and describe its plans to acquire the technology to do so. This may be based on the practitioner's understanding of:
>
> - The pressures that the entity faces to reduce carbon emissions to meet regulatory targets; and
> - The fact that acquiring the technology to capture and store carbon likely would be cost prohibitive to the entity.
>
> Whether the practitioner considers the misstatement material, if it were to occur, depends on the importance that intended users place on the disclosure, and the magnitude of misstatement that would influence the decisions of intended users, which may be influenced by factors including:
>
> - Current or past trends in carbon emissions for the entity and the industry;
> - Whether the plan to reduce carbon emissions is important to meeting legal or regulatory emissions targets;
> - Whether the plan to enhance carbon capture and storage capacities is the primary approach, or part of a multi-pronged approach, to reducing carbon emissions; and
> - Whether customers, employees, or investors in the industry place importance on carbon emissions.

A410. The sustainability reporting framework may require disclosure of a large number of individual metrics for different sustainability matters. In these circumstances:

- The practitioner may treat a group of metrics as a disclosure for purposes of identifying and assessing the risks of material misstatement (i.e., the practitioner need not identify and assess the risk of material misstatement for each individual metric.) This may be the case, for example, if intended users are more likely to focus on the group of metrics rather than individual metrics.
- Depending on the facts and circumstances, the practitioner may determine that the risks of material misstatement for certain metrics or groups of metrics are acceptable in the circumstances (i.e., are at an acceptable level for the engagement (for limited assurance) or an acceptably low level (for reasonable assurance)). In these circumstances, the practitioner need not design and perform further procedures. Irrespective of the assessed risks of material misstatement, paragraph 138 requires the practitioner to consider the need

to design and perform substantive procedures for disclosures that, in the practitioner's judgment, are material.

A411. The sustainability assurance engagement (and the practitioner's assurance conclusion) may relate only to certain metrics. In these circumstances, it is more likely that the individual metrics may be of significance to intended users. Therefore, the practitioner would ordinarily identify and assess the risks of material misstatement for each individual metric.

A412. Risks of material misstatement may relate to one or more entities within the reporting boundary. In these circumstances, the practitioner may consider using the work of a component practitioner to identify and assess the risks of material misstatement. However, the practitioner remains responsible for the identification and assessment of risks of material misstatement of the group sustainability information and for the design and performance of further procedures to respond to the assessed risks.

Assertions

A413R. In identifying and assessing the risks of material misstatement, the practitioner uses assertions to consider the different types of potential misstatements that may occur. The practitioner may use the assertions described below or may express them differently provided all aspects described below have been covered. Assertions may include:

- Occurrence and existence – the disclosures are related to events or conditions that have occurred or exist.
- Responsibility – the disclosures pertain to the entity.
- Completeness – all events or conditions, pertaining to the entity and the reporting boundary, that should have been included in the sustainability information have been included.
- Accuracy and valuation – the disclosures, including estimates, have been appropriately measured, evaluated or described in accordance with the applicable criteria.
- Cutoff – the disclosures have been recorded in the reporting period to which they relate.
- Presentation, classification and understandability – the disclosures are appropriately aggregated or disaggregated, structured appropriately, and presented and described in accordance with the applicable criteria, and are clearly expressed.
- Consistency – the criteria and application of the criteria are consistent with those applied in the prior period, or changes are justified and have been properly applied and adequately disclosed; and comparative information, if any, is as reported in the prior period or has been appropriately restated.

A413AL. Although the practitioner is not required to identify and assess risks of material misstatement at the assertion level in a limited assurance engagement, the practitioner may choose to use assertions if they are useful in considering the types of potential misstatements that could occur or designing and performing procedures in response to them.

A414. Misstatements may arise as a result of human error, process flaws, management bias or fraud.

Examples of different types of possible misstatements include:

- False claims in information (occurrence and existence, or responsibility assertion) – for example, if an entity claimed responsibility for community investment or environmental clean-up that did not actually occur or was done by another party.

- Recording information in the incorrect period (cut-off assertion) – for example, recording an entity's water used in the period preceding or following the period in which the water was actually used.
- Inaccuracies in information (accuracy and valuation assertion) – for example, arising from inaccurately calibrated measuring devices, transposition or other errors in the recording of measurements, or use of inappropriate conversion factors, such as use of a carbon dioxide conversion factor for nuclear energy when the entity has coal and oil-fired facilities.
- Omission of information (completeness assertion) – for example, a company reports on its land rehabilitation program for three of its mining sites but remains silent about two sites where significant degradation has occurred and where there are no plans to rehabilitate the land.
- Incorrectly classified information (presentation, classification and understandability assertion) – for example, the entity classifies seasonal contractors (mainly female) as permanent full-time employees, which results in erroneous reporting about gender representation on its permanent work force.
- Misleading or unclear representation of information (presentation, classification and understandability assertion) – for example, the preparer gives undue prominence to favorable information by using large, bold or brightly-colored text and images, or other ways to emphasize the presentation, but presents unfavorable information less conspicuously, for example, by using small or light-colored font, and less extensive text.
- Bias in information that focuses on positive aspects of performance and omits negative aspects (presentation, classification and understandability assertion).

Management Override of Controls (Risk Assessment) (Ref: Para. 121R)

A415R. Management is in a unique position to perpetrate fraud because of management's ability to manipulate the data and records and prepare fraudulent sustainability information by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a risk of material misstatement at the upper end of the spectrum of risk.

Evaluating the Evidence Obtained from the Risk Assessment Procedures (Ref: Para. 122)

A416. The practitioner's evaluation of the components of the entity's system of internal control and understanding of controls, along with any control deficiencies identified, may:

(a) Influence the identification and assessment of risks of material misstatement for the disclosures; and

(b) Indicate risks of material misstatement that may affect many disclosures, and thus may require overall responses in accordance with paragraphs 126L and 126R.

Responding to Risks of Material Misstatement

Designing and Performing Further Procedures (Ref: Para. 124L-125)

A417. The practitioner's further procedures may include a combination of procedures such as inspection; observation; confirmation; recalculation; reperformance; analytical procedures; and inquiry. Determining the further procedures to be performed on a particular engagement is a matter of professional judgment. Because sustainability information may cover a wide range of circumstances, the nature, timing and extent of such procedures are likely to vary considerably from engagement to engagement.

A418. Substantive procedures may include:

- Tests of detail, for example:
  - Agreeing emissions factors to appropriate sources (for example, government publications), and considering their applicability in the circumstances.
  - Reviewing joint venture agreements and other contracts relevant to the entity's reporting boundary.
  - Reconciling recorded data to, for example, odometers on vehicles owned by the entity.
  - Reperforming calculations and reconciling differences noted.
  - Sampling and independently analyzing the characteristics of materials such as coal, or observing the entity's sampling techniques and reviewing records of laboratory test results.
  - Checking the accuracy of calculations and the suitability of calculation methods used.
  - Agreeing recorded data back to source documents, such as production records, fuel usage records, and invoices for purchased energy.
- Analytical procedures when there is a relationship between the sustainability information and other relevant information such that the practitioner may be able to develop an expectation and compare that expectation with the outcome of the measurement or evaluation of the sustainability matters.

A419. The planned nature, timing and extent of further procedures is a matter of professional judgment and is influenced by the circumstances of the assurance engagement, including the information needs of intended users as a group, the criteria, and the sustainability matters within the scope of the engagement.

A420. The nature, timing and extent of the further procedures will be informed by:

- The practitioner's approach to planning and performing procedures, including understanding how the entity disaggregates or aggregates the sustainability information for purposes of reporting (see paragraph A286);
- The assessed risks of material misstatement, including the reasons for the assessment given to the risks of material misstatement;
- Whether using the work of others (e.g., practitioner's experts, component practitioners or another practitioner(s)) is necessary to obtain evidence from or pertaining to group components or value chain components; and
- The persuasiveness of evidence to be obtained.

A421. Because the level of assurance obtained in a limited assurance engagement is substantially lower than in a reasonable assurance engagement, the further procedures the practitioner performs in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. The differences between the practitioner's further procedures for a reasonable assurance engagement and a limited assurance engagement on sustainability information may include:

(a) The emphasis placed on the nature of procedures as a source of evidence will likely differ, depending on the engagement circumstances. For example, the practitioner may judge it to be appropriate in the circumstances of a particular limited assurance engagement to place relatively greater emphasis on inquiries of the entity's personnel and analytical procedures, and relatively less emphasis, if any, on tests of controls and obtaining evidence from external sources than may be the case for a reasonable assurance engagement.

(b) In a limited assurance engagement, the extent of procedures performed compared to those in a reasonable assurance engagement may involve:

(i) Selecting fewer items to test;

(ii) Performing fewer procedures (for example, performing only analytical procedures in circumstances when, in a reasonable assurance engagement, both analytical procedures and tests of detail would be performed); or

(iii) Performing procedures on location at fewer facilities.

(c) In a reasonable assurance engagement, analytical procedures performed in response to assessed risks of material misstatement involve developing expectations of quantities or ratios that are sufficiently precise to identify material misstatements. In a limited assurance engagement, analytical procedures may be designed to support expectations regarding the direction of trends, relationships and ratios rather than to identify misstatements with the level of precision expected in a reasonable assurance engagement.

In addition, when undertaking analytical procedures in a limited assurance engagement the practitioner may, for example:

(i) Use data that is more highly aggregated, for example, data at a regional level rather than at a facility level, or monthly data rather than weekly data.

(ii) Use data that has not been subjected to separate procedures to test its reliability to the same extent as it would be for a reasonable assurance engagement.

A422. Examples of reasons for the assessment given to a risk of material misstatement:

- The inherent complexity of the sustainability matter or judgment in its measurement or evaluation. For example, a material misstatement may be more likely to arise in a disclosure where mass balance calculations are involved than when water consumption is read directly from a meter.
- The complexity of the organization, its ownership and control arrangements, or its geographical spread.
- Systems and processes that are less automated or still developing, such that there may be a greater likelihood of human error, processing flaws or opportunity for unauthorized intervention.
- Incentives to misstate, for example, if a particular target performance has to be met to retain a license to operate or to avoid fines, or to meet stakeholders' expectations.

- Inherent limitations in the capabilities of measuring devices (e.g., water meters) or insufficient frequency of their calibration.
- Errors or inappropriate judgments made in measuring, evaluating or disclosing the sustainability information, including in the assumptions used in making estimates, the use of inaccurate or incomplete base data on which estimates are based, or in circumstances when complex calculations are involved (e.g., when a mass balance approach is used to calculate water abstracted).
- The risk that unidentified aspects of the sustainability matter may be missed, for example because of events or transactions outside of the normal course of business, because the preparer relies on a third party for information (e.g., external meter readers or engineering firms to calculate water abstracted), or because of undetected water or wastewater leaks or similar.
- How weaknesses in the design of controls or the ineffective operation of controls might give rise to errors, processing flaws or opportunity for unauthorized intervention.

A423. More persuasive evidence may be needed to provide the basis for a conclusion on the sustainability information due to engagement circumstances. For example, the practitioner may have identified and assessed a higher risk of material misstatement. In such circumstances, it may be appropriate to increase the quantity of the evidence (e.g., by obtaining corroborating evidence from a number of independent sources).

A424. More persuasive evidence may be needed if the practitioner, through the understanding of the entity and its environment and its system of internal control, has identified matters such as:

- A higher assessed risk of material misstatement;
- An increased focus of intended users on a topic or aspect of a topic;
- The lack of a relationship between the sustainability information and other relevant information that precludes the performance of analytical procedures;
- A control environment in which the entity does not demonstrate behavior consistent with a commitment to integrity and ethical values;
- Risks of material misstatement that have not been identified by the entity's risk assessment process;
- Information systems that are not appropriate to the circumstances of the entity;
- A lack of maturity in the sustainability matters or the information system used to prepare the sustainability information;
- Errors in the disclosure in the past;
- A new area, topic or aspect of a topic.

Overall Responses (Ref: Para. 126L, 126R)

A425. Paragraphs 124L and 124R require the practitioner to design and perform further procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement, whether due to fraud or error, at the disclosure level (limited assurance) or at the assertion level for the disclosures (reasonable assurance). However, the practitioner may identify circumstances that indicate that overall responses may be needed in accordance with paragraph 126L or 126R, such as the following:

- Deficiencies in the control environment may undermine the effectiveness of other controls, in particular in relation to fraud. In such cases, material misstatements may occur in any assertion or in multiple assertions.
- There may be incentives for intentional misstatement of the sustainability information, for example, those who are directly involved with, or have the opportunity to influence, the reporting process may have a significant portion of their compensation contingent upon achieving aggressive targets or complying with laws and regulations that have a direct effect on the sustainability information.
- The practitioner may identify an increased risk of material misstatement pervasively throughout the sustainability information (that is, not related to one disclosure or assertion, or a few disclosures or assertions).

A426. Designing and performing overall responses may include:

- Assigning and supervising personnel, considering the knowledge, skill and ability of the individuals to be given significant engagement responsibilities, and the practitioner's risk assessment procedures.
- Conducting more procedures as of the period end rather than at an interim date.
- Obtaining more extensive evidence from procedures other than tests of controls.
- Increasing sample sizes and the extent of procedures, such as the number of facilities at which procedures are performed.
- Incorporating an element of unpredictability in the selection of the nature, timing and extent of procedures.

Responding to Identified or Suspected Fraud or Non-Compliance with Laws and Regulations (Ref: Para. 127-129)

A427. The risk of not detecting a material misstatement due to fraud or non-compliance with laws and regulations is higher than the risk of not detecting one resulting from error. Furthermore, the risk of not detecting fraud or suspected fraud or non-compliance or suspected non-compliance with laws and regulations is higher in a limited assurance engagement than in a reasonable assurance engagement. The appropriate response to fraud or suspected fraud or non-compliance or suspected non-compliance with laws and regulations is dependent on the circumstances.

A428. Responding appropriately to identified or suspected fraud or non-compliance with laws and regulations, identified during the engagement, may include taking action, such as:

- Discussing the matter with the entity.
- Requesting the entity to consult with an appropriately qualified third party, such as the entity's legal counsel or a regulator.
- Inspecting correspondence, if any, with the relevant licensing or regulatory authorities.
- Considering the implications of the matter in relation to other aspects of the engagement, including the practitioner's risk assessment and the reliability of written representations from the entity.
- Obtaining legal advice about the consequences of different courses of action.
- Withholding the assurance report.
- Withdrawing from the engagement.

A428A. In determining the appropriate level of management or those charged with governance, with whom to communicate instances of fraud or suspected fraud or non-compliance or suspected non-compliance with laws and regulations, the practitioner may consider whether management may have been involved in the fraud or suspected fraud or identified or suspected non-compliance with laws and regulations and whether any of those charged with governance are involved in managing the entity. If those charged with governance are not involved with managing the entity, the practitioner may communicate to them instances of fraud or suspected fraud or non-compliance or suspected non-compliance with laws and regulations involving management, employees who have significant roles in internal control, or where the fraud or non-compliance with laws and regulations results in a material misstatement in the sustainability information, unless that communication is prohibited by law or regulation.

A428B. In certain circumstances, the practitioner's response to identified or suspected fraud, or instances of non-compliance or suspected non-compliance with laws and regulations may require reporting the identified or suspected fraud or non-compliance with laws and regulations to an appropriate authority outside the entity. See paragraph 66A.

A429. Relevant ethical requirements may include requirements addressing the practitioner's communication of instances of identified or suspected non-compliance with laws and regulations with the financial statement auditor.

A430. Examples of circumstances that may cause the practitioner to evaluate the implications of identified or suspected non-compliance on the reliability of written representations received from management and, where applicable, those charged with governance include when:

- The practitioner suspects or has evidence of the involvement or intended involvement of management and, where applicable, those charged with governance in any identified or suspected non-compliance.
- The practitioner is aware that management and, where applicable, those charged with governance have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorized reporting of, the matter to an appropriate authority within a reasonable period.

Tests of Controls (Ref: Para. 130-136)

A431. When more persuasive evidence is needed regarding the effectiveness of a control, it may be appropriate to increase the extent of testing of the control. Other matters the practitioner may consider in determining the extent of tests of controls include the following:

- The frequency of the performance of the control by the entity during the period.
- The length of time during the period that the practitioner is relying on evidence about the operating effectiveness of the control.
- The expected rate of deviation from a control.
- The relevance and reliability of the information to be used as evidence regarding the operating effectiveness of the control at the assertion level.
- The extent to which evidence is obtained from tests of other controls related to the assertion in a reasonable assurance engagement.

A432. Because of the inherent consistency of IT processing, evidence about the implementation of an automated application control, when considered in combination with evidence about the operating effectiveness of the entity's IT general controls (in particular, change controls), may also provide substantial evidence about its operating effectiveness.

A433. In certain circumstances, evidence obtained from previous engagements may provide evidence for the current engagement when the practitioner performs procedures to establish its continuing relevance. For example, in performing a previous engagement, the practitioner may have determined that an automated control was functioning as intended. The practitioner may obtain evidence to determine whether changes to the automated control have been made that affect its continued effective functioning through, for example, inquiries of management and the inspection of logs to indicate what controls have been changed. Consideration of evidence about these changes may support either increasing or decreasing the expected evidence to be obtained in the current period about the operating effectiveness of the controls.

A434. In most cases, evidence from a previous engagement's substantive procedures provides little or no evidence for the current period. However, it may be appropriate to use evidence from a previous engagement's substantive procedures if that evidence and the related subject matter have not fundamentally changed, and procedures have been performed during the current period to establish its continuing relevance.

Substantive Procedures (Ref: Para. 138R)

A436R. The practitioner's understanding of the entity's process to identify sustainability information to be reported may indicate that certain disclosures include information that is likely to be of particular importance to intended users (see also paragraphs A287-A289 regarding the grouping of disclosures for purposes of planning and performing the engagement). However, the practitioner may determine that the risks of material misstatement for those disclosures are at an acceptably low level. In these circumstances, due to the importance of that information to intended users, paragraph 138 requires the practitioner to consider the need to design and perform substantive procedures on those disclosures. The need to perform substantive procedures, and the extent of such procedures, is a matter of professional judgment in the circumstances. In addition, the practitioner is not expected to design and perform substantive procedures for all disclosures. Rather, the substantive procedures may focus on the disclosures, or the information within those disclosures, that is expected to be of particular importance to intended users.

A436AR. The consideration of the need to design and perform substantive procedures for these disclosures reflects that:

- The practitioner's assessment of the risks of material misstatement is judgmental.
- There are inherent limitations in internal control, including the possibility of management override. Therefore, for example, the practitioner may determine that testing the operating effectiveness of controls may need to be supplemented with limited tests of details.

External Confirmation Procedures (Ref: Para. 139R)

A437. The practitioner may consider performing confirmation procedures to request information regarding assertions, disclosures, topics, or aspects of topics.

A438. External confirmation procedures may provide relevant evidence about such information as:

- Activity data collected by a third party.
- Industry benchmark data used in calculations.
- The terms of agreements, contracts, or transactions between the entity and other parties.
- The results of laboratory analysis of samples.

Extending the Conclusions of Substantive Procedures Performed at an Interim Date (Ref: Para.140)

A439. In some circumstances, the practitioner may determine that it is effective to perform substantive procedures at an interim date, and to compare and reconcile information at the period end with the comparable information at the interim date to:

(a) Identify amounts that appear unusual;

(b) Investigate any such amounts; and

(c) Perform analytical procedures or tests of details to test the intervening period.

A440. Performing substantive procedures at an interim date without undertaking additional procedures at a later date increases the risk that the practitioner will not detect misstatements that may exist at the period end. This risk increases as the remaining period is lengthened. The practitioner may consider factors such as the following in deciding whether to perform substantive procedures at an interim date:

- The control environment and other relevant controls.
- The availability at a later date of information necessary for the practitioner's procedures.
- The purpose of the substantive procedure.
- The assessed risk of material misstatement.
- The nature of the disclosures and related assertions.
- The ability of the practitioner to perform appropriate substantive procedures or substantive procedures combined with tests of controls to cover the remaining period in order to reduce the risk that misstatements that may exist at the period end will not be detected.

Analytical Procedures (Ref: Para. 141L-142R)

A441. Analytical procedures may be performed when there is a reasonably predictable relationship between the sustainability information and financial or operational information (for example, the relationship between Scope 2 emissions from electricity and hours of operation or the general ledger balance for electricity purchases). Other analytical procedures may involve comparisons of information about the entity's sustainability information with external data such as industry averages; or the analysis of trends during the period to identify anomalies for further investigation, and trends across periods for consistency with other circumstances such as the acquisition or disposal of facilities.

A442. Analytical procedures may be particularly effective when disaggregated data are readily available, or when the practitioner has reason to consider the data to be used are reliable, such as when it is extracted from a well-controlled source. In some cases, data to be used may be captured by the financial reporting information system or may be entered in another information system in parallel with the entry of related financial data, and some common input controls applied. For example, the quantity of fuel purchased as recorded on suppliers' invoices may be input under the same conditions that relevant invoices are entered into an accounts payable system. In some cases, data to be used may be an integral input to operational decisions and therefore subject to increased scrutiny by operational personnel, or subject to separate external procedures (for example, as part of a joint venture agreement or oversight by a regulator).

A443L. In a limited assurance engagement, analytical procedures may be designed to support expectations about the direction of trends, relationships and ratios rather than with the level of precision required in a reasonable assurance engagement to identify possible material misstatements.

Sampling (Ref: Para. 143)

A444. Sampling is not the same as selecting items as part of risk identification or assessment procedures or to evaluate the reliability of information. Sampling involves the following:

(a) Determining a sample size sufficient to reduce sampling risk to an appropriately low level. Sampling risk is the risk that the practitioner's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same procedure. Because the acceptable level of assurance engagement risk is lower for a reasonable assurance engagement than for a limited assurance engagement, so too may be the level of sampling risk that is acceptable in the case of tests of details. Therefore, when sampling is used for tests of details in a reasonable assurance engagement, the sample size may be larger than when used in similar circumstances in a limited assurance engagement.

(b) Selecting items for the sample in such a way that each sampling unit in the population has a chance of selection, and performing procedures, appropriate to the purpose, on each item selected. If the practitioner is unable to apply the designed procedures, or suitable alternative procedures, to a selected item, that item is treated as a deviation from the prescribed control, in the case of tests of controls, or a misstatement, in the case of tests of details.

(c) Investigating the nature and cause of deviations or misstatements identified and evaluating their possible effect on the purpose of the procedure and on other areas of the engagement.

(d) Evaluating:

(i) The results of the sample, including, for tests of details, projecting misstatements found in the sample to the population; and

(ii) Whether the use of sampling has provided an appropriate basis for conclusions about the population that has been tested.

Estimates and Forward-Looking Information (Ref: Para. 145L, 145R)

A445. Estimation uncertainty may arise due to incomplete knowledge about the measurement of an area, activity or event, or the measurement or evaluation of an estimate may depend on the forecast of an outcome of one or more events or conditions.

A446. Forward-looking information may include forecasts, projections, or future plans of the entity. Forward-looking information may be prepared using scenarios based on best-estimate assumptions or hypothetical assumptions, which are affected by management's judgment. A future event, occurrence or action relating to the sustainability matters may be subject to greater uncertainty, and therefore ordinarily able to be evaluated with less precision than historical events, occurrences or actions. Disclosures become more speculative as the length of the period covered increases and the uncertainty may increase the further into the future the period to which the forward-looking information relates.

A447. The applicable criteria may require disclosure of the entity's intended future strategy, targets, or other intentions. For such forward-looking information, the practitioner is not required to obtain evidence about whether the strategy, target or intention will be achieved, or to come to a conclusion to that effect.

A448R. When designing the procedures required by paragraph 145R(a), the practitioner's procedures may include:

(a) Based on the practitioner's knowledge and experience, considering if there are reasons to believe that the forward-looking information is clearly unrealistic.

(b) Inspecting minutes of meetings or reports on business's operations to evaluate whether:

(i) Management or those charged with governance have an intention and ability to follow the strategy;

(ii) The target or intention exists; or

(iii) There is a reasonable basis for the intended strategy or target.

A449. Regardless of the source or degree of uncertainty, complexity or subjectivity, or the extent of management's judgment, it is necessary for management to appropriately apply the applicable criteria when developing estimates and forward-looking information and the related disclosures, including selecting and using appropriate methods, assumptions and data.

A450L. In some limited assurance engagements, it may be appropriate for the practitioner to undertake one or more of the procedures in paragraph 145R.

Evaluating Whether the Method Has Been Appropriately Selected and Applied (Ref: Para 145R(b)(i)a.)

A451R. In evaluating whether the method has been appropriately selected and applied, the practitioner's further procedures may address:

(a) Whether judgments made in selecting the method give rise to indicators of possible management bias;

(b) Whether the calculations are applied in accordance with the method and are mathematically accurate;

(c) When management's application of the method involves complex modelling, whether judgments have been applied consistently and whether, when applicable:

(i) The design of the model meets the measurement objective of the applicable criteria, is appropriate in the circumstances, and, if applicable, changes from the prior period's model are appropriate in the circumstances; and

(ii) Adjustments to the output of the model are consistent with the measurement objective of the applicable criteria and are appropriate in the circumstances; and

(d) Whether the integrity of the significant assumptions and the data have been maintained in applying the method. Assumptions used in determining an estimate or forward-looking information are referred to as significant assumptions when a reasonable variation in the assumption would materially affect the estimate or forward-looking information.

Evaluating Whether the Assumptions are Appropriate (Ref: Para. 145R(b)(i)b.)

A452R. In evaluating whether the assumptions are appropriate, the practitioner's further procedures may address:

(a) Whether judgments made in selecting the significant assumptions give rise to indicators of possible management bias;

(b) Whether the significant assumptions are consistent with the purpose for preparing the estimates or forward-looking information, with each other and with those used in other disclosures, or with related assumptions used in other areas of the entity's business activities, based on the practitioner's knowledge obtained in the engagement;

(c) If applicable, whether management has the intent to carry out specific courses of action and has the ability to do so; and

(d) Whether the entity has considered alternative assumptions or outcomes, and why it has rejected them.

Evaluating Whether the Data are Appropriate (Ref: Para. 145R(b)(i)c.)

A453R. In evaluating whether the data are appropriate, the practitioner's further procedures may address:

(a) Whether judgments made in selecting the data give rise to indicators of possible management bias;

(b) Whether the data are relevant and reliable in the circumstances; and

(c) Whether the data have been appropriately understood or interpreted by management, including with respect to contractual terms.

Changes from Prior Periods Not Based on New Circumstances or New Information (Ref: Para. 145L(a)(iii), 145R(b)(i))

A454. When a change from prior periods in a method, significant assumption, or the data are not based on new circumstances or new information, or when significant assumptions are inconsistent with each other and with those used in other estimates, or with related assumptions used in other areas of the entity's business activities, the practitioner may need to have further discussions with management about the circumstances and, in doing so, challenge management regarding the appropriateness of the assumptions used.

Developing a Point Estimate or Range (Ref: Para. 145R(b)(ii))

A455R. Developing a point estimate or range, as applicable, to evaluate estimates and related disclosures may be an appropriate approach when, for example:

- The practitioner's consideration of similar estimates made in the prior period suggests that management's current period process is not expected to be effective.
- The entity's controls within and over management's processes for developing estimates are not well designed or properly implemented.
- Events or transactions between the period end and the date of the practitioner's report have not been properly taken into account, when it is appropriate for management to do so, and such events or transactions appear to contradict management's point estimate.
- There are appropriate alternative assumptions or sources of relevant data that can be used in developing a practitioner's point estimate or a range.
- Management has not taken appropriate steps to understand or address the estimation uncertainty.

A456R. The practitioner may develop a point estimate or a range in a number of ways, for example, by:

- Using a different model than the one used by management, for example, one that is commercially available for use in a particular sector or industry, or a proprietary or practitioner-developed model.
- Using management's model but developing alternative assumptions or data sources to those used by management.
- Using the practitioner's own method but developing alternative assumptions to those used by management.

- Employing or engaging a person with specialized expertise to develop or execute a model, or to provide relevant assumptions.

A456AR. The practitioner may also develop a point estimate or range for forward-looking information. The practitioner's decision as to whether to do so may depend on the nature of the forward-looking information and the practitioner's judgment in the circumstances. For example, as forward-looking information is subject to greater inherent uncertainty than historical information, the practitioner may choose to determine whether the disclosure presented by management is within a reasonable range of possible outcomes.

Revising the Risk Assessment in a Reasonable Assurance Engagement (Ref: Para. 146R)

A457R. If, having performed the additional procedures required by paragraph 146R(b), the practitioner is not able to obtain sufficient appropriate evidence to reach a reasonable assurance conclusion, a scope limitation exists and paragraph 182 applies.

Determining Whether Additional Procedures Are Necessary in a Limited Assurance Engagement (Ref: Para. 147L)

A458L. Not all misstatements are indicative of the existence of material misstatements. However, the practitioner may become aware of a matter(s) that causes the practitioner to believe the sustainability information may be materially misstated. For example, when performing site visits the practitioner may identify a potential source of emissions that does not appear to be included in the emissions disclosures. In such cases, the practitioner makes further inquiries as to the potential source, and how it has been incorporated into the emissions disclosures.

A459L. The practitioner's judgment about the nature, timing and extent of additional procedures that are needed to obtain evidence to either conclude that a material misstatement is not likely, or determine that a material misstatement exists, is, for example, guided by:

- Information obtained from the practitioner's evaluation of the results of the procedures already performed.
- The practitioner's updated understanding of the sustainability matters and other engagement circumstances obtained throughout the course of the engagement.
- The practitioner's view on the persuasiveness of evidence needed to address the matter that causes the practitioner to believe that the sustainability information may be materially misstated.
- Whether the practitioner judges it appropriate to perform procedures of similar nature or extent to that required in a reasonable assurance engagement.

A460L. The practitioner uses professional judgment to determine the persuasiveness of evidence required to conclude on the matter that causes the practitioner to believe the sustainability information may be materially misstated.

A462L. If, having performed the additional procedures required by paragraph 147L, the practitioner is not able to obtain sufficient appropriate evidence to either conclude that the matter(s) is not likely to cause the sustainability information to be materially misstated or determine that it does cause the sustainability information to be materially misstated, a scope limitation exists and paragraph 165 applies.

The Entity's Process for Assembling the Sustainability Information (Ref: Para. 148L, 149R)

A463. The process to assemble the sustainability information may be very informal when the entity's information system is immature. In more sophisticated systems, the process may be more systematic and formally documented. The nature and extent of the practitioner's procedures with respect to adjustments and the manner in which the practitioner agrees or reconciles the sustainability information with the underlying records depends on the nature and complexity of the sustainability matters, the entity's reporting process and the related risks of material misstatement. The practitioner also may consider whether all activities within the reporting boundary have been included in the sustainability information in accordance with the applicable criteria.

A464R. Other procedures to respond to the risk of management override of controls may include:

- Inquiring with those charged with governance about the appropriateness of the adjustments made by management in the process for the assembly of the sustainability information.
- Obtaining and examining supporting documentation to determine the rationale, business or otherwise, for the adjustments to the sustainability information.
- Evaluating whether the rationale (or the lack thereof) of the adjustments to the sustainability information suggests that they may have been entered into to engage in fraudulent reporting.
- Inspecting system logs for system overrides or bypasses to controls.

Accumulation and Consideration of Identified Misstatements

Accumulation of Identified Misstatements (Ref: Para. 152)

A465. Uncorrected misstatements are accumulated during the engagement for the purpose of determining whether, individually or in the aggregate, they are material when forming the practitioner's conclusion. "Clearly trivial" is not another expression for "not material." Misstatements that are clearly trivial are of a wholly different (smaller) order of magnitude, or of a wholly different nature than those that would be determined to be material, and are misstatements that are clearly inconsequential, whether taken individually or in the aggregate and whether judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the misstatement is considered not to be clearly trivial.

A466. For quantitative disclosures, the practitioner may designate an amount below which misstatements would be clearly trivial and would not need to be accumulated because the practitioner expects that the accumulation of such amounts clearly would not have a material effect on the disclosures.

A467. Clearly trivial may be considered in the context of the impact of the misstatement on the intended users' decisions. As explained in paragraph A37, intended users may include users who may use sustainability information to make resource allocation decisions, or users who may be interested in the impacts described in paragraph A337. The entity's process to identify sustainability information to be reported may inform the practitioner's consideration of identified misstatements and whether they are clearly trivial.

A468. Examples of where or how misstatements in sustainability information may arise:

(a) An inaccuracy in gathering or processing information used to prepare the sustainability information;

(b) Manipulating or obscuring the sustainability information in a manner that would be misleading to the intended users;

(c) Management's judgments involving estimates being considered unreasonable by the practitioner;

(d) The inclusion of inappropriate information, for example, information that does not meet the applicable criteria or a misapplication of the entity's process to identify sustainability information to be reported by management which results in the inclusion of excessive immaterial information that obscures or distorts sustainability information required by the applicable criteria;

(d)A The entity's reporting policies to select and apply the criteria are inappropriate or inconsistent with the applicable framework criteria or the criteria used in the relevant industry.

(e) The inclusion of information that is not supported by sufficient appropriate evidence.

(f) The omission of sustainability information, for example, information that, in the practitioner's judgment, should have been disclosed based on the entity's process to identify sustainability information to be reported or that otherwise is required to be disclosed by the applicable criteria, or omitting sustainability information relating to a significant subsequent event that would likely change the decisions of users but has not been adequately disclosed;

(g) Sustainability information that, in the practitioner's judgment, is:

(i) Ambiguous; or

(ii) Capable of being determined precisely, but is presented in a vague manner;

(h) Changes since the previous reporting period to the sustainability information without reasonable justification for doing so or without disclosing the reasons for doing so;

(i) The way the sustainability information is presented, such as:

(i) Out of context, in an unbalanced manner, or given greater or lesser prominence than is warranted, based on the available evidence and applicable criteria; or

(ii) Using superlatives and adjectives that describe a more positive outcome than is supportable.

(j) Inappropriately drawing conclusions, based on selective information, through statements such as the following:

(i) "A large number of companies worldwide," based on information for only a hundred companies; although a hundred may be large, it is not large compared with the number of companies in the world.

(ii) "The numbers have doubled since last year" may be factual, but a small base giving rise to this doubling may not be disclosed.

A469. Some framework criteria may allow the entity to omit information, explain what information has been omitted and why. For example, the entity may be permitted to omit information if a requirement is not applicable, information is unavailable or incomplete, there are legal prohibitions, or confidentiality constraints. In such cases, the omitted information may not be a misstatement. The practitioner may discuss the omission, and the reasons for it, with management, and where appropriate, those charged with governance before concluding whether the omission is a misstatement.

A470. The sustainability information may include a description of the entity's processes, systems or controls regarding the sustainability matters (e.g., the entity's process to identify, assess, and manage current and anticipated sustainability-related risks and opportunities). The scope of the assurance engagement may require the practitioner to conclude:

(a) Whether the description of the entity's process, systems or controls fairly presents the design and implementation of those processes, systems or controls;

(b) Whether the entity's processes, systems or controls are suitable, or operated effectively throughout the period; or

(c) A combination of both.

A471. What constitutes a misstatement when the sustainability information includes a description of the entity's processes, systems or controls, depends on the scope of the engagement. For example:

(a) The scope of the engagement includes whether the entity's processes, systems or controls are suitable and operated effectively throughout the period: If the practitioner determines that the entity's description of the processes, systems or controls inaccurately implies that it is suitably designed or operated effectively throughout the period, this may constitute a misstatement.

(b) The scope of the engagement does not include whether the entity's processes, systems or controls are suitable and operated effectively throughout the period, and the related disclosures about the entity's processes, systems or controls are considered other information: If the practitioner is aware that the entity's description of its processes, systems or controls inaccurately implies that it is suitably designed or operated effectively throughout the period, paragraph 174 applies.

Considering Whether Identified Misstatements May Be Due to Fraud (Ref: Para. 153)

A472. Paragraph 77 requires the practitioner to evaluate whether the applicable criteria are suitable. Criteria that are vague and allow manipulation of the sustainability information may not be suitable for the engagement circumstances. If the criteria are suitable but management intentionally did not apply the criteria appropriately, it may be an indication of misstatement due to fraud.

A473. Misstatements due to fraud may result from intentional:

(a) Manipulation, falsification, or alteration of information or supporting documentation from which the sustainability information is prepared.

(b) Misrepresentation in, or omission from, the sustainability information.

A474. Examples of misstatements due to fraud in sustainability information:

- Misstating sustainability information to avoid penalties or fines.
- Intentionally inaccurate or misleading public statements or claims that will favorably impact share price or an assessment of the entity's sustainability credentials, such as an inaccurate statement that a bond is a sustainability bond.
- Intentionally reporting sustainability information relating to performance or compensation incentives in a biased way to influence the outcome of the performance reward or compensation.
- Emphasizing that a product was produced using recycled materials but intentionally not reporting that the product was produced using forced labor.
- Intentionally reporting topics for which the entity has positive impacts and omitting topics for which the entity has negative impacts.

- Misstating baseline information to make sustainability information look more favorable in subsequent periods.
- Misstating sustainability information associated with specific project milestones, budget approval, or rights to access certain markets or begin projects in certain markets or geographies.

A475. If the practitioner identifies a misstatement that is indicative of fraud, this may have implications in relation to other aspects of the assurance engagement, particularly:

(a) The practitioner's identification and assessment of risks of material misstatements due to fraud at the disclosures level (in a limited assurance engagement), or at the assertion level for disclosures (in a reasonable assurance engagement), and the resulting effect on the nature, timing and extent of further procedures;

(b) The reliability of management representations, recognizing that an instance of fraud is unlikely to be an isolated occurrence.

Consideration of Identified Misstatements as the Engagement Progresses (Ref: Para. 154)

A476. The practitioner may also consider whether accumulated misstatements relate to control deficiencies. Specifically, the practitioner may consider whether the nature or extent of the accumulated misstatements result in the need to update the practitioner's understanding of the entity's system of internal control relevant to the preparation of the sustainability information (see paragraphs 111L and 111R).

Communicating and Correcting Misstatements (Ref: Para. 155-157)

A477. In the case of narrative disclosures, asking management to correct a misstatement may involve management either re-wording or removing the misstated text.

A478. The practitioner's understanding of management's reasons for not making the corrections may indicate possible bias in management's judgments.

Evaluating the Effect of Uncorrected Misstatements (Ref: Para. 158-159)

A479. Determining whether uncorrected misstatements are material involves professional judgment in the context of the applicable criteria and the engagement circumstances, including who the intended users are and what disclosures are likely to be important.

A480. The manner in which uncorrected misstatements are evaluated depends on the sustainability information that is the subject of the engagement. For example, if the practitioner provides an assurance conclusion on the entirety of the sustainability information, the practitioner may determine whether the uncorrected misstatements are:

(a) Individually material for each of the disclosures to which they relate. If an individual misstatement in a disclosure is determined to be material, it is unlikely that it can be offset by other misstatements within that disclosure unless the misstatements relate to the same matter and involve the same measurement basis.

(b) If the misstatements are not material individually:

(i) Material in aggregate (i.e., collectively with other misstatements) across specific topics or aspects of topics (see paragraphs A483A and A484).

(ii) Material in aggregate to the entirety of the sustainability information (i.e., in aggregate across all disclosures) (see paragraph A485).

A482. Misstatements of amounts smaller than the materiality for quantitative disclosures may have a material effect on the reported sustainability information from a qualitative perspective. For example, if an error results in a reversal of a declining trend in an indicator, or if an error prevents an entity from achieving regulatory requirements, these may be considered material, even if the quantitative error is smaller than the quantitative threshold.

A483. When the scope of the sustainability assurance engagement is a number of metrics, each relating to a different sustainability matter, the practitioner may evaluate the materiality of misstatements separately for each metric as intended users may have different tolerances for misstatement in each metric. For example, intended users' tolerance for misstatements is likely to be higher for a disclosure about non-hazardous, degradable waste, than it would be for a disclosure about radioactive or other hazardous waste.

A483A. When the sustainability information is measured using a common measurement basis (e.g., monetary amounts or physical units), the practitioner may be able to accumulate all misstatements together (i.e., as being of the same nature quantitatively and capable of being aggregated). However, the disclosures may relate to multiple topics, may comprise several aspects of the topics, and the sustainability matters may be measured or evaluated using different measurement bases. The practitioner is not required to convert misstatements in different measurement bases into a common base for purposes of accumulating the misstatements and determining whether the sustainability information is materially misstated.

A484. It may be possible, after all non-quantifiable misstatements have been identified, to group them together, for example, by whether they relate, in common, to particular aspects of the sustainability matters. For example, there may be one or more individually immaterial misstatements in the qualitative statements management has made about occupational health and safety and another immaterial misstatement relating to employee diversity. As occupational health and safety and diversity both relate to the social aspect of sustainability information, the practitioner may be able to group these misstatements together and consider their combined effect on the social aspect of the entity's sustainability information. Similarly, a number of immaterial misstatements in the reported water consumption information and another immaterial misstatement relating to waste generated may be able to be considered together as they both relate to the environmental aspect of the sustainability information.

A485. The sustainability information as a whole may be misstated, even though the misstatements are individually immaterial. Even if there are misstatements that are not able to be accumulated by sustainability matter or other common factors, they may exhibit a common direction, narrative, tone or trend. For example, if the effect of the misstatements is to make the sustainability information as a whole look more favorable than it actually is or all the misstatements overstate the positive aspects of the entity's actions, and downplay the negative aspects, that may add up to give a biased and misleading picture to the users of the sustainability information.

Other Misstatement Considerations

A486. Materiality of uncorrected misstatements is considered in the context of qualitative and, when applicable, quantitative factors. The practitioner may also consider the extent to which users could reasonably be expected to make a different decision if the sustainability information was not misstated. Qualitative factors that may indicate that a misstatement is more likely to be material, include:

Sustainability matters

(a) The entity's process to identify sustainability information to be reported is misaligned with the scope or objective of reporting in accordance with the applicable criteria.

(b) The misstated sustainability information relates to an aspect of the sustainability matter that has been determined as being significant.

(c) There are multiple misstatements related to the same topic of the sustainability matter.

(d) The nature of the misstatements is such that they all overstate or understate the sustainability matter.

External factors

(e) The misstated sustainability information relates to non-compliance with a law or regulation, particularly when the consequence for non-compliance is severe.

(f) The misstated sustainability information relates to sustainability matters that has implications for a large number of the entity's stakeholders. However, there may be situations when the sustainability matter has implications for only a small number of stakeholders but may, nonetheless, have material implications. For example, a small community affected by radioactive contamination of its water supply from effluent from an entity's operations may result in a lawsuit that could have a material impact on the entity and its other stakeholders.

Nature of the sustainability information

(g) The misstatements may indicate doubts as to the feasibility of management's plans. For example, an entity may disclose its policies or commitments to mitigate sustainability-related risks in accordance with the applicable criteria, but evidence obtained may indicate these policies or commitments are unrealistic, rely on unproven technologies, or require financing that the entity is unlikely able to obtain.

(h) The misstatement relates to a particular disclosure that is commonly used to compare the entity to its peers.

(i) The misstatement relates to a target or threshold, and the error significantly impacts whether the target or threshold is met (e.g., the magnitude of the error may be small but may have significant consequences for meeting the target).

(j) The misstated information is reporting a significant change in a previously reported position, or a trend that has reversed.

Presentation

(k) The misstatement that has arisen from the presentation of the sustainability information being misleading because the wording that has been used lacks clarity such that it could be interpreted in widely different ways. Accordingly, intended users might make different decisions depending on their interpretation.

Management's behavior

(l) The misstatement has arisen as a result of fraud by management to mislead intended users.

(m) Management is reluctant to correct the misstatement for reasons other than they consider it immaterial.

(n) Management is reporting aggressive targets or estimates, or is defensive in providing explanations.

A487. Misstatements in qualitative information are as important as misstatements in quantitative information. If the misstatements in qualitative information are not corrected by management, the practitioner may accumulate them by listing them, or marking up or highlighting them in a copy of the sustainability information. When it is not possible to add the misstatements together to determine their effect in the aggregate, the practitioner may consider whether there are any commonalities among the misstatements, such as whether the misstatements reflect a more favorable outcome that is collectively material, or indicate management bias.

A488. Other factors that may help the practitioner evaluate the materiality of misstatements include understanding:

- The underlying cause of identified misstatements. For example, if the qualitative misstatement exists because management has intentionally decided to misrepresent facts, this may indicate the possibility that the sustainability information may contain a material misstatement due to fraud.
- Whether a misstatement may have an indirect effect on misstatements identified in other areas of the engagement. For example, an otherwise immaterial overstatement of an item might indirectly affect a more significant calculation that incorporates the item, causing that calculation to fall below the required minimum threshold included in a contractual requirement, or the qualification criteria for a scheme, grant or funding. Similarly, the lack of a required approval for a relatively unimportant transaction might not be material individually, but it could have implications for the operating effectiveness of controls in areas of the sustainability information that users might consider important.

Measurement or Evaluation Uncertainty

A489. The sustainability matter may have inherent measurement or evaluation uncertainty (for example, the estimation of climate-related risks in the long term across the entity's value chain). As a result of inherent uncertainties relating to the sustainability matter, there may be a wide range of possible outcomes and it may be difficult to identify whether there is a material misstatement of the sustainability information. The practitioner may consider whether the sustainability matter is as precise as is required by the applicable criteria, and the information required by the applicable criteria about the inherent uncertainty is disclosed. Without supporting disclosures to help the intended users understand the uncertainty, the applicable criteria may not be suitable, and the sustainability information may not be presented appropriately. Paragraphs 187(g) and A572 address the appropriate descriptions to be included in the assurance report.

A490. When the uncertainty is not inherent (i.e., when it results from lack of appropriate application of the applicable criteria), it may give rise to misstatements. For example, management may not have used appropriate information to measure or evaluate the sustainability matter that has resulted in it not being as precise as required by the applicable criteria.

A491. Forward-looking information is ordinarily subject to greater measurement or evaluation uncertainty than historical information. As a result, there may be a broad range of possible outcomes, and it may be difficult to identify and evaluate misstatements, including whether the assumptions are:

(a) Reasonable, in the case of a forecast; or

(b) Realistic and in line with the purpose of the information, in the case of projections.

A491A. The practitioner may consider ways in which misstatements in forward-looking information may arise, for example:

(a) Data or other information used may not be relevant, complete or reliable;

(b) Assumptions may include information that is not relevant, may omit important considerations, may be internally inconsistent, or may be given inappropriate weighting;

(c) Assumptions may not be consistent with management's decisions or intent; or

(d) There may be unintentional or deliberate misapplication of the assumptions to the data or other information, or in calculations of quantifiable information.

In some cases, misstatements may arise as a result of a combination of these circumstances.

A492. The practitioner may also consider whether there are indicators of possible management bias in the selection of assumptions, methods or data in the way in which the sustainability information is presented that may indicate a misstatement or have implications for the rest of the assurance engagement. For example, indicators of possible management bias may include when management has:

(a) Changed the assumptions or methods used, or has made a judgmental assessment that there has been a change in circumstances, without reasonable justification;

(b) Used assumptions that are inconsistent with assumptions used elsewhere in the entity's business, including for financial statement or operational purposes, or inconsistent with observable marketplace assumptions;

(c) Selected significant assumptions that favor management's objectives, or that may indicate a pattern or trend.

Evaluating the Description of Applicable Criteria (Ref: Para. 161)

A493. The preconditions for an assurance engagement in paragraph 77 require that the criteria that the practitioner expects to be applied in the preparation of the sustainability information will be available to the intended users. This may be done by references to a description of the applicable criteria, which is available to the intended users, or the inclusion of a description of the applicable criteria and the sources of those criteria in the sustainability information, to enable intended users to understand how:

(a) The content of the sustainability information, such as the topics and aspects of the topics, has been identified and selected;

(b) The intended users' information needs were identified; and

(c) The sustainability matter has been measured or evaluated.

A494. Referencing or describing the applicable criteria and their sources is particularly important when:

(a) There are significant differences between criteria applied by entities in the same industry, region, or jurisdiction that the practitioner expects to have similar circumstances or be equivalent.

(b) The sustainability matter is subject to a high degree of measurement or evaluation uncertainty, such as forward-looking sustainability information, as there may be more variability, or it may be open to greater interpretation than when there is less uncertainty. This may result in sustainability information that could be misunderstood or misinterpreted by intended users.

A495. In evaluating whether the reference or description of the criteria is adequate, the practitioner may consider whether it addresses:

(a) The source of the applicable criteria, and whether the applicable criteria are framework criteria embodied in law or regulation or issued by an authorized or recognized organization that follows a transparent due process, other framework criteria or entity-developed criteria.

(b) How framework criteria have been applied, including the entity's reporting policies for applying the framework criteria.

(c) For other framework criteria or entity-developed criteria, how the determination was made that these, together with any framework criteria, are suitable.

(d) When applicable framework criteria were not applied, the reasons therefor.

(e) The specific aspects of the criteria related to particular types of sustainability information, for example:

  (i) The basis for evaluating the reasonableness of the underlying assumptions for forward-looking information.

  (ii) Control objectives for design and operating effectiveness of processes, systems or controls.

  (iii) Targets, key performance indicators, commitments or goals for evaluating or measuring performance.

(f) Measurement or evaluation methods used when the applicable criteria allow for choice between a number of methods.

(g) Any significant judgments made in applying the applicable criteria in the engagement circumstances.

(h) The inherent limitations, if any, associated with the measurement or evaluation of the sustainability matter against the applicable criteria.

(i) Other matters relevant to intended users understanding of the basis for the preparation of the sustainability information, including uncertainties.

(j) Any changes in the measurement or evaluation methods used, and the reasons therefor.

(k) Any deviations from the applicable criteria identified, for example, deviations from a framework that the entity has referred to as being the basis for preparing the sustainability information.

(l) The need for clear meaning, so that the description does not contain imprecise or qualifying language that may result in inconsistent interpretation and provides sufficient detail and clarity to be understandable.

Subsequent Events (Ref: Para. 162 -163)

A496. Examples of subsequent events:

- The publication of revised factors, assumptions or benchmarks by a body such as a government agency (e.g., revised emissions factors).
- Changes to relevant legislation or regulations.
- Significant improved scientific knowledge.
- Significant structural changes in the entity.
- The availability of more accurate quantification methods.
- The discovery of a significant fraud or error.
- The discovery of significant water pollution or soil contamination.
- Fatality and other significant health and safety events.

A497R. The practitioner's procedures to identify subsequent events may include:

(a) Obtaining an understanding of any procedures management has established to identify subsequent events.

(b) Inquiring of management, and where appropriate, those charged with governance, as to whether any subsequent events have occurred that may affect the sustainability information.

(c) Reading minutes of meetings of the owners, those charged with governance and management held after the date of the sustainability information and inquiring about matters discussed at any such meetings for which minutes are not yet available.

(d) Reading the entity's monthly or quarterly sustainability information, if available.

A498L. The practitioner's procedures to identify subsequent events may include inquiring of management, and as appropriate, those charged with governance, about whether any subsequent events have occurred that may affect the sustainability information.

A499. The practitioner has no responsibility to perform any procedures regarding the sustainability information after the date of the assurance report. However, if, after the date of the assurance report, a fact becomes known to the practitioner that, had it been known to the practitioner at the date of the assurance report, may have caused the practitioner to amend the report, the practitioner may need to discuss the matter with the management or those charged with governance or take other action as appropriate in the circumstances.

Written Representations from Management and Those Charged with Governance (Ref: Para. 164)

A500. Written confirmation of oral representations reduces the possibility of misunderstandings between the practitioner and management, and where appropriate, those charged with governance. The person(s) from whom the practitioner requests written representations will ordinarily be a member of senior management or those charged with governance depending on, for example, the management and governance structure of the entity, which may vary by jurisdiction, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics.

A501. Representations by management and, where appropriate, those charged with governance cannot replace other evidence the practitioner could reasonably expect to be available. Although written representations provide necessary evidence, they do not provide sufficient appropriate evidence on their own about any of the matters with which they deal. Furthermore, the fact that the practitioner has received reliable written representations does not affect the nature or extent of other evidence that the practitioner obtains.

Other Information

Obtaining the Other Information (Ref: Para. 170)

A502. As explained in paragraph 5, the scope of the assurance engagement may extend to all of the sustainability information to be reported by the entity or only part of that information. When the assurance engagement does not cover the entirety of the sustainability information, the term "sustainability information" is to be read as the information that is subject to the assurance engagement.

A503. The objective of the required discussion with management in paragraph 170(a) is to help the practitioner understand the entirety of the sustainability information to be reported, including the sustainability information subject to the assurance engagement, and where it will be reported, to be able to identify the other information required to be read and considered in accordance with paragraph 171. For example, the sustainability information subject to the assurance engagement may be included as part of an entity's management report, annual report or integrated report, or included with other governance information.

A504. As frameworks and practices for reporting sustainability information may be evolving and new laws and regulations may be imposed over time, the location of the sustainability information and the content of the report(s) in which that information is included may change between periods. As a result, it may not be clear which document(s) comprises the report in which the sustainability information will be published. The practitioner may communicate with those responsible for preparing the entity's reports, whether management or those charged with governance, the practitioner's expectations in relation to obtaining the final version of the report(s) that will contain the sustainability information in a timely manner prior to the date of the assurance report. This enables the practitioner to complete the procedures required by this ISSA before the date of the assurance report.

A505. When other information is only made available to users via the entity's website, the final version of the other information obtained from the entity, rather than directly from the entity's website, is the relevant document on which the practitioner would perform procedures in accordance with this ISSA. The practitioner has no responsibility under this ISSA to search for other information, including other information that may be on the entity's website. In addition, the practitioner has no responsibility to perform any procedures to confirm that other information is appropriately displayed on the entity's website or otherwise has been appropriately transmitted or displayed electronically, unless this is within the scope of the assurance engagement.

Reading and Considering the Other Information (Ref: Para. 171)

A506. If the other information is materially inconsistent with the sustainability information subject to the assurance engagement or the practitioner's knowledge obtained in the engagement, it may indicate that there is a material misstatement of the sustainability information or that a material misstatement of the other information exists. This may undermine the credibility of the sustainability information and the assurance report thereon. Such material misstatements may also inappropriately influence the decisions of the users for whom the assurance report is prepared. The procedures with respect to other information may also assist the practitioner in complying with relevant ethical requirements as required by paragraph 34. Relevant ethical requirements require the practitioner to avoid being knowingly associated with information that the practitioner believes contains a materially false or misleading statement, statements or information provided recklessly, or omits or obscures required information where such omission or obscurity would be misleading.

A507. In some cases, disclosures in the other information may summarize, or provide additional details about, the disclosures in the sustainability information subject to the assurance engagement. The practitioner may compare a selection of such disclosures in the other information with the disclosures in the sustainability information subject to assurance. The extent of this comparison is a matter of professional judgment recognizing that the practitioner's responsibilities under this ISSA do not constitute an assurance engagement on the other information or impose an obligation to obtain assurance about the other information.

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

Responding When the Practitioner Concludes That a Material Misstatement Exists in Other Information Obtained Prior to the Date of the Assurance Report (Ref: Para. 174-175)

A508. The actions the practitioner takes if the other information is not corrected after communicating with those charged with governance are a matter of professional judgment. The practitioner may take into account whether the rationale given by management and those charged with governance for not making the correction raises doubt about the integrity or honesty of management or those charged with governance, such as when the practitioner suspects an intention to mislead. The practitioner may also consider it appropriate to seek legal advice. In some cases, the practitioner may be required by law, regulation or professional requirements to communicate the matter to a regulator or relevant professional body.

Responding When the Practitioner Concludes That a Material Misstatement Exists in Other Information Obtained after the Date of the Assurance Report (Ref: Para. 174-175)

A509. The practitioner has no obligation to perform any procedures regarding the other information that becomes available after the date the assurance report. However, the practitioner may become aware that a material inconsistency appears to exist between the other information available after the date of the assurance report and the sustainability information or the practitioner's knowledge obtained in the engagement. The practitioner may discuss the matter with management or those charged with governance, as appropriate, and if the other information is not corrected take appropriate action. This may include performing other procedures to conclude whether a material misstatement of the other information or of the sustainability information exists. If the practitioner concludes that a material misstatement exists, but the other information is not corrected, the practitioner may seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the practitioner's report is prepared, considering the practitioner's legal rights and obligations.

Reporting Implications (Ref: Para. 175(a))

A510. In rare circumstances, a disclaimer of conclusion or opinion on the sustainability information may be appropriate when the refusal to correct the material misstatement of the other information casts such doubt on the integrity of management and those charged with governance as to call into question the reliability of evidence in general.

Withdrawal from the Engagement (Ref: Para. 175(b))

A511. Withdrawal from the engagement, when possible under applicable law or regulation, may be appropriate when the circumstances surrounding the refusal to correct the material misstatement of the other information cast such doubt on the integrity of management and those charged with governance as to call into question the reliability of representations obtained from them during the assurance engagement.

Responding When a Material Misstatement in the Sustainability Information Exists or the Practitioner's Understanding of the Entity and Its Environment Needs to Be Updated (Ref: Para. 176)

A512. In reading the other information, the practitioner may become aware of new information that has implications for:

- The practitioner's understanding of the entity and its environment and, accordingly, may indicate the need to revise the practitioner's risk consideration or assessment.
- The practitioner's responsibility to evaluate the effect of identified misstatements on the engagement and of uncorrected misstatements, if any, on the sustainability information.
- The practitioner's responsibilities relating to subsequent events.

Forming the Assurance Conclusion

Evaluating the Evidence Obtained (Ref: Para. 177)

A513. An assurance engagement is an iterative process, and information may come to the practitioner's attention that differs significantly from that on which the determination of planned procedures was based. This may particularly be the case when the entity's information system is less mature or when the disclosures, and their characteristics, are subject to greater judgment. As the practitioner performs planned procedures, the evidence obtained may cause the practitioner to perform additional procedures to meet the intended purpose(s) in performing those procedures. In some circumstances, the practitioner may not have obtained the evidence that the practitioner had expected to obtain through the planned procedures. When the practitioner determines that the evidence obtained from the procedures performed is not sufficient and appropriate to be able to form a conclusion on the sustainability information, the practitioner may:

(a) Extend the work performed; or

(b) Perform other procedures judged by the practitioner to be necessary in the circumstances.

When neither of these is practicable in the circumstances, the practitioner will not be able to obtain sufficient appropriate evidence to be able to form a conclusion.

A514. A procedure may be designed to be effective in achieving an intended purpose, but if the performance or execution of the procedure (i.e., its application) is inappropriate the purpose of the procedure may not be met. Paragraphs 31-63 address the specific responsibilities of the practitioner regarding quality management at the engagement level, and the related responsibilities of the engagement leader, which may affect the application of procedures. In addition, paragraph A116 explains that the review of the engagement team's work consists of considering whether, for example:

(a) The evidence obtained is sufficient and appropriate to provide a basis for the practitioner's assurance conclusion; and

(b) The objectives of the procedures have been achieved.

A515. The practitioner's professional judgment as to what constitutes sufficient appropriate evidence is influenced by such factors as the following:

- Significance of a potential misstatement and the likelihood of it having a material effect, individually or when aggregated with other potential misstatements, on the sustainability information.
- Effectiveness of management or those charged with governance's responses to address the known risk of material misstatement.
- Experience gained during previous assurance engagements with respect to similar potential misstatements.
- Results of procedures performed, including whether such procedures identified specific misstatements.
- Source and reliability of the available information.
- Persuasiveness of the evidence.
- Understanding of the entity and its environment.

A516. The evaluation of evidence obtained related to the preparation of qualitative information or qualitative aspects of quantitative information may include consideration of whether:

(a) There are indicators of possible bias in judgments and decisions in the making of estimates and in preparing the sustainability information;

(b) The quantification methods and reporting policies selected and applied are consistent with the applicable criteria and are appropriate;

(c) The information presented in the sustainability information is relevant, reliable, complete, comparable and understandable;

(d) The sustainability information provides adequate disclosure of the applicable criteria, and other matters, including uncertainties, such that intended users can understand the significant judgments made in its preparation; and

(e) The terminology used in the sustainability information is appropriate.

Evidence Obtained That Is Inconsistent with Other Evidence (Ref: Para. 179)

A517. When evidence is inconsistent with other evidence, it may indicate that some of the information used as evidence is not reliable. This may be the case, for example, when responses to inquiries of management, those charged with governance, internal auditors, or others are inconsistent. Such inconsistencies may therefore call into question the appropriateness of the practitioner's evaluation of the relevance and reliability of such information, in accordance with paragraph 89. Paragraph 93 addresses the practitioner's responsibilities when the practitioner has doubts about the relevance and reliability of information intended to be used as evidence. The extent to which the practitioner may need to modify or add to the procedures to resolve the doubts and the effect on other aspects of the assurance engagement may vary.

A518. When performing a procedure, the practitioner may identify items that are inconsistent with the practitioner's expectations or that exhibit characteristics that are unusual. Different terminology may be used to describe these items, for example, exceptions, outliers, notable items, or items of interest. These items may indicate a possible misstatement in the sustainability information. They may also indicate inconsistencies in evidence, particularly when other evidence has not identified similar exceptions or outliers, or cast doubt on the reliability of the information.

A519. In considering the effect of inconsistencies in evidence on other aspects of the assurance engagement, the practitioner may consider whether the practitioner's risk assessment remains appropriate.

A520. If the practitioner is unable to obtain sufficient appropriate evidence, the practitioner is required to express a qualified conclusion or disclaim a conclusion on the sustainability information, or, if possible, withdraw from the engagement, in accordance with paragraph 182.

Concluding (Ref: Para. 180-181A)

A521. In regulatory disclosure regimes, disclosures specified in the relevant law or regulation are adequate for reporting to the regulator. However, additional disclosures in the sustainability information may be necessary for other intended users to understand the significant judgments made in preparing the sustainability information, such as:

(a) The method used for determining the reporting boundary, if the applicable criteria allow a choice between different methods, and which operations are included;

(b) Significant evaluation or quantification methods and reporting policies selected and applied, including:

   (i) The entity's process to identify the sustainability matters to be included in the sustainability information (see paragraph A3);

   (ii) Any significant interpretations made in applying the applicable criteria in the entity's circumstances, including data sources and, when choices between different methods are allowed, or entity-specific methods are used, disclosure of the method used and the rationale for doing so; and

   (iii) How the entity determines whether previously reported disclosures should be restated.

(c) A statement regarding the uncertainties relevant to the entity's quantification of its sustainability information, including: their causes, how they have been addressed and their effects on the sustainability information; and

(d) Changes, if any, in the matters mentioned in this paragraph or in other matters that materially affect the comparability of the sustainability information with a prior period(s) or base year.

Evaluating Whether the Sustainability Information Achieves Fair Presentation (Ref: Para. 181)

A522. In the case of fair presentation criteria, the practitioner's evaluation about whether the sustainability information achieves fair presentation is a matter of professional judgment. This evaluation takes into account such matters as the facts and circumstances of the entity, including changes thereto, based on the practitioner's understanding of the entity and the evidence obtained. The evaluation also includes consideration, for example, of the disclosures needed to achieve a fair presentation arising from matters that could be material (i.e., in general, misstatements are considered to be material if they could reasonably be expected to influence decisions of intended users taken on the basis of the sustainability information), such as the effect of evolving requirements or the changing environment.

A523. Evaluating whether the sustainability information achieves fair presentation may include, for example, discussions with management and those charged with governance about their views on why a particular presentation was chosen, as well as alternatives that may have been considered. The discussions may include, for example:

- The degree to which the disclosures in the sustainability information are aggregated or disaggregated, and whether the presentation of disclosures obscures useful information, or results in misleading information.
- Consistency with appropriate industry practice, or whether any departures are relevant to the entity's circumstances and therefore warranted.

Scope Limitation (Ref: Para. 182)

A524. A scope limitation may arise from:

(a) Circumstances beyond the control of the appropriate party(ies). For example, documentation the practitioner considers necessary to inspect may have been accidentally destroyed;

(b) Circumstances relating to the nature or timing of the practitioner's work. For example, a physical process the practitioner considers necessary to observe may have occurred before the practitioner's engagement; or

(c) Limitations imposed by management, those charged with governance, or the engaging party on the practitioner that, for example, may prevent the practitioner from performing a procedure the practitioner considers to be necessary in the circumstances. Limitations of this kind may have other implications for the engagement, such as for the practitioner's consideration of engagement risk and the acceptance and continuance of the client relationship and the assurance engagement.

A525. An inability to perform a specific procedure does not constitute a scope limitation if the practitioner is able to obtain sufficient appropriate evidence by performing alternative procedures.

Taking Overall Responsibility for Managing and Achieving Quality (Ref: Para. 183(d)(i))

A526. Relevant considerations in determining that the engagement leader's involvement has been sufficient and appropriate throughout the engagement to provide a basis for determining that the significant judgments made and conclusions reached are appropriate, given the nature and circumstances of the engagement, include, for example:

(a) How consultation on difficult, contentious or other matters has been undertaken and conclusions agreed have been implemented;

(b) How differences of opinion have been addressed and resolved; and

(c) How the engagement documentation evidences the engagement leader's involvement throughout the engagement.

A527. Examples of indicators that the engagement leader may not have been sufficiently and appropriately involved:

- Lack of timely review by the engagement leader of the engagement planning, including reviewing the risk assessment procedures performed.
- Evidence that those to whom tasks, actions or procedures have been assigned were not adequately informed about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof; and were not provided other necessary instructions and relevant information.
- A lack of evidence of the engagement leader's direction and supervision of the other members of the engagement team and the review of their work.

A528. If the engagement leader's involvement does not provide the basis for determining that the significant judgments made and the conclusions reached are appropriate, the engagement leader will not be able to make the determination required by paragraph 183. In addition to taking into account firm policies or procedures that may set forth the required actions to be taken in such circumstances, appropriate actions that the engagement leader may take, include, for example:

- Updating and changing the engagement plan;
- Reevaluating the planned approach to the nature and extent of review and modifying the planned approach to increase the involvement of the engagement leader; or
- Consulting with personnel assigned operational responsibility for the relevant aspect of the firm's system of quality management.

Documentation (Ref: Para.184)

A529. The requirement to document how the practitioner addressed inconsistencies in information does not imply that the practitioner needs to retain engagement documentation that is incorrect or superseded.

A530. Engagement documentation evidencing the involvement of the engagement leader and the engagement leader's determination in accordance with paragraph 184(b) may be accomplished in different ways depending on the nature and circumstances of the engagement.

Examples:

- Direction of the engagement team can be documented through signoffs of the engagement plan and project management activities;
- Minutes from formal meetings of the engagement team may provide evidence of the clarity, consistency and effectiveness of the engagement leader's communications and other actions in respect of culture and expected behaviors that demonstrate the firm's commitment to quality;
- Agendas from discussions between the engagement leader and other members of the engagement team, and where applicable the engagement quality reviewer, and related signoffs and records of the time the engagement leader spent on the engagement, may provide evidence of the engagement leader's involvement throughout the engagement and supervision of other members of the engagement team; or
- Signoffs by the engagement leader and other members of the engagement team provide evidence that the working papers were reviewed.

Preparing the Assurance Report

Communicating Effectively in the Assurance Report (Ref: Para. 185-186)

A531. The assurance report is the means by which the practitioner communicates the outcome of the assurance engagement to the intended users. Clear communication helps the intended users to understand the assurance conclusion. The practitioner does not report orally or by use of symbols without also providing a written assurance report that is readily available whenever the oral report is provided or the symbol is used, so that the practitioner's conclusion is not misunderstood. For example, a symbol indicating disclosures have been subject to an assurance engagement could be hyperlinked to a written assurance report.

A532. Appendix 3 contains illustrations of assurance reports on sustainability information, incorporating only the basic elements in paragraph 187 for the fact pattern stated above each illustration. The circumstances of the engagement may necessitate additional matters to be included in the assurance report to comply with this ISSA or the practitioner may consider that additional matters are needed to aid the understanding of the intended users.

Assurance Report Content (Ref: Para. 187)

A533. This ISSA does not require a standardized format for reporting on all assurance engagements. Instead, it identifies the basic elements the assurance report is to include. Assurance reports are tailored to the specific engagement circumstances. The practitioner may use headings, in addition to those required by this ISSA, paragraph numbers, the bolding of text, and other mechanisms to enhance the clarity and readability of the assurance report.

Title of the Assurance Report (Ref: Para. 187(a))

A534. To be independent, an assurance report is prepared by a practitioner that complies with the independence requirements of the IESBA Code related to sustainability assurance engagements or requirements that are at least as demanding.

Addressee (Ref: Para. 187(b))

A535. The addressee is usually the engaging party or those charged with governance of the entity. Law or regulation or the terms of the engagement may specify to whom the assurance report is to be addressed in that particular jurisdiction. As well as identifying the addressee of the assurance report, the practitioner may consider it appropriate to include wording in the body of the assurance report that specifies the purpose for which, or the intended users for whom, the report was prepared.

The Practitioner's Conclusion (Ref: Para. 187(c))

The level of assurance obtained (Ref: Para. 187(c)(iii))

A536. When parts of the sustainability information are subject to limited assurance and other parts are subject to reasonable assurance, clear identification in the assurance report of the sustainability information subjected to each level of assurance may aid users' understanding of what has been subject to limited assurance and what has been subject to reasonable assurance. The conclusions relating to each part of the sustainability information may also be distinguished to assist the intended users. In these circumstances, the practitioner's report contains each of the content elements that are common to both levels of assurance, with the content elements for limited assurance and reasonable assurance clearly separated, to comply with paragraph 187.Identification or description of the sustainability information (Ref: Para. 187(c)(iv))

A537. Identification or description of the sustainability information subject to the assurance engagement and, when appropriate, the sustainability matters, may include:

- The title or other identifying features of the sustainability information and, if applicable any broader report (such as an annual report or integrated report) within which the sustainability information is reported.
- If the sustainability information subject to the assurance engagement is not the entire sustainability information reported, identification of the part of the sustainability information subject to the assurance engagement, and if necessary to assist users' understanding, identification of the sustainability information not subject to the assurance engagement (see also paragraph A538).

- Where applicable, the name of other entity(ies) (such as entities in the value chain), facility(ies), location/s, jurisdiction/s or other boundary to which the sustainability matters relate.
- An explanation of those characteristics of the sustainability matters or the sustainability information of which the intended users should be aware, and how such characteristics may influence the precision of the measurement or evaluation of the sustainability matters against the applicable criteria, or the persuasiveness of available evidence. For example:
    - The degree to which the sustainability information is qualitative versus quantitative, narrative versus numeric, objective versus judgmental, or historical versus forward-looking.
    - Changes in the sustainability matters, criteria or other engagement circumstances that affect the comparability of the sustainability information from one period to the next.

A538. In some circumstances, the entity may refer to the fact that certain sustainability information (e.g., information related to a value chain entity outside of the entity's control) has been subject to assurance, and may also include a reference in the sustainability information to the report of the practitioner that performed that assurance engagement. Such references could imply that the practitioner is taking responsibility for the content of, or conclusions expressed, in the assurance report of that other practitioner. In these circumstances, the practitioner may decide to clearly identify these references as not being subject to the assurance engagement.

Expression of the practitioner's conclusion (Ref: Para. 187(c)(vi)-(vii), 195L, 195R)

A539L. Examples of conclusions expressed in a form appropriate for a limited assurance engagement:

(a) When expressed in terms of the sustainability information and the applicable criteria:

(i) Under a compliance framework: "Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the [sustainability information] is not prepared, in all material respects, in accordance with XYZ criteria."

(ii) Under a fair presentation framework: "Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the [sustainability information] is not fairly presented, in all material respects, in accordance with XYZ criteria."

(b) When expressed in terms of a statement made by the appropriate party:

(i) Under a compliance framework: "Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the [appropriate party's] statement that [the entity] has complied, in all material respects, with XYZ requirements is not properly prepared."

(ii) Under a fair presentation framework: "Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the [appropriate party's] statement that the [sustainability information] is prepared in accordance with XYZ criteria is not, in all material respects, fairly stated."

A540R. Examples of conclusions expressed in a form appropriate for a reasonable assurance engagement:

(a) When expressed in terms of the sustainability information and the applicable criteria:

(i) Under a compliance framework: "In our opinion, the entity's sustainability information is prepared, in all material respects, in accordance with XYZ criteria;" or

(ii) Under a fair presentation framework: "In our opinion, the entity's sustainability information is fairly presented, in all material respects, in accordance with XYZ criteria;"

(b) When expressed in terms of a statement made by the appropriate party:

(i) Under a compliance framework: "In our opinion, the [appropriate party's] statement that the entity has complied with XYZ requirement is, in all material respects, fairly stated" or

(ii) Under a fair presentation framework: "In our opinion, the [appropriate party's] statement that the [sustainability information] is prepared in accordance with XYZ criteria is, in all material respects, fairly stated."

A541. Forms of expression that may be useful for sustainability matters include, for example, one, or a combination of, the following:

- For compliance frameworks—"in compliance with" or "in accordance with."
- For engagements when the applicable criteria describe a methodology for the preparation or presentation of the sustainability information—"properly prepared."
- For engagements when the principles of fair presentation are embodied in the applicable criteria—"fairly stated" or "presents fairly."

Identification of the applicable criteria (Ref: Para. 187(c)(vii))

A542. In order for the practitioner to accept or continue the engagement, paragraph 80 requires the preconditions to be met, including that the criteria will be available to the intended users. Management or those charged with governance may make the applicable criteria available to users, either in the sustainability information or by reference, in order for the intended users to understand the basis of preparation of the sustainability information. The entity's sustainability information or the description of the criteria referenced, may include matters such as:

- Details of the sources of the applicable criteria, and whether or not the applicable criteria are framework criteria, embodied in law or regulation, or issued by an authorized or recognized organization that follow a transparent due process, and if they are not, who developed the criteria, the basis for that development (such as how the intended user's needs were identified) and a description of why they are considered suitable.
- Reporting policies for the measurement or evaluation methods used, including when the applicable criteria allow for choice between a number of methods.
- Any significant interpretations made in applying the applicable criteria.
- Whether there have been any changes in reporting policies for the measurement or evaluation methods used since the prior period.

A543. A statement that management has prepared the sustainability information in accordance with particular criteria is appropriate only if the sustainability information complies with all the requirements of those criteria that are effective during the period covered by the sustainability information.

A544. A description of the applicable criteria that contains imprecise qualifying or limiting language (for example, "the sustainability information is in substantial compliance with the requirements of XYZ") is not an adequate description as it may mislead users of the sustainability information.

A545. Sometimes management may report the sustainability information using more than one framework. In such a case, user understanding is likely to be enhanced if management or those charged with governance make available the criteria relating to each framework separately, rather than being summarized or combined. When management prepares the sustainability information in accordance with multiple frameworks (e.g., a national framework and a global framework), those frameworks represent the applicable criteria and are identified in accordance with paragraph 187(c)(vii), if each framework is complied with individually. If the sustainability information is prepared in accordance with one sustainability reporting framework and, in addition, discloses the extent to which the sustainability information complies with another framework, such disclosure is covered by the assurance conclusion if it cannot be clearly differentiated from the sustainability information.

Informing the intended users of the context in which the practitioner's conclusion is to be read (Ref: Para. 187(c)(ix))

A546. It may be appropriate to inform the intended users of the context in which the practitioner's conclusion is to be read when the assurance report includes an explanation of particular characteristics of the sustainability matter of which the intended users should be aware. The practitioner's conclusion may, for example, include wording such as: "This conclusion has been formed on the basis of the matters outlined elsewhere in this independent assurance report."

Basis for Conclusion Section (Ref: Para. 187(d))

Statement that the engagement was conducted in accordance with this ISSA (Ref: Para. 187(d)(i))

A547. Practitioner's statements that contain imprecise or limiting language (for example, "the engagement was performed by reference to (or based on) ISSA 5000") may mislead users of assurance reports. In these circumstances, users may understand that all of the requirements of this ISSA have all been complied with, even if they have not (see paragraph 20).

Statement about independence requirements specific to certain entities (Ref: Para 187(d)(iv)A)

A548. Relevant ethical requirements may:

- Establish independence requirements that are specific to sustainability assurance engagements of certain entities specified in the relevant ethical requirements, such as the independence requirements for sustainability assurance engagements of public interest entities in the IESBA Code.
- Require the practitioner to publicly disclose when the practitioner applied independence requirements specific to sustainability assurance engagements of certain entities. For example, the IESBA Code requires that when a firm has applied the independence requirements for public interest entities in performing a sustainability assurance engagement of an entity, the firm publicly disclose that fact, unless making such disclosure would result in disclosing confidential future plans of the entity.

Responsibilities for the Sustainability Information (Ref: Para. 187(f))

A549. Identifying relative responsibilities informs the intended users that management, or those charged with governance, as appropriate, is responsible for the preparation of the sustainability information, and that the practitioner's role is to independently express a conclusion about the sustainability information.

A550. Those charged with governance instead of management may be responsible for the sustainability information depending on the engagement circumstances and the legal framework in the particular jurisdiction. In other jurisdictions, those charged with governance may be responsible for the oversight of the process to prepare the sustainability information, and management fulfills the responsibilities described in paragraph 187(f)(i).

Applicability of responsibility for fair presentation of the sustainability information (Ref: Para. 187(f)(i)a.)

A551. Some criteria acknowledge explicitly or implicitly the concept of fair presentation. As noted in the definition of criteria (see paragraph 18), fair presentation criteria not only require compliance with the criteria, but also acknowledge explicitly or implicitly that it may be necessary for management to provide disclosures beyond those specifically required by the criteria. Therefore, the responsibilities of management or those charged with governance, as appropriate, for preparing the sustainability information in accordance with a fair presentation framework, extend to whether fair presentation is achieved in the sustainability information presented.

Inherent Limitations in Preparing the Sustainability Information (Ref: Para. 187(g))

A552. While in some cases inherent limitations can be expected to be well understood by the intended users, in other cases it may be appropriate for the practitioner to make explicit reference to them in the assurance report. This may particularly be the case when inherent measurement or evaluation uncertainties may be fundamental to intended users' understanding of the sustainability information. For example, for greenhouse gas emissions, it may be appropriate to note that the entity's disclosures about Scope 3 emissions are subject to more inherent limitations than for Scope 1 and Scope 2 emissions, given the lack of availability and relative precision of information used for determining both qualitative and quantitative Scope 3 information from value chain entities outside the control of the group.

A553. Management may choose to explain limitations on the ability to obtain information from value chain entities included in the sustainability information reported and, if not, the practitioner may discuss with management whether to do so. The practitioner may also choose to describe the effects on the practitioner's procedures in the assurance report (e.g., in the Inherent Limitations section of the report). However, it is important that any such description in the assurance report does not imply that the practitioner's responsibility for obtaining sufficient appropriate evidence to support the assurance conclusion is reduced with respect to such information.

A553A. For engagements on sustainability information containing forward-looking information (i.e., goals or targets, forecasts, scenario analyses or transition plans) the preparation of this information may be subject to inherent limitations. If the practitioner describes such limitations in an Inherent Limitations section of the assurance report, such description may refer to management's explanation, if any, and state that:

- For a forecast expressed as specific disclosure(s): Actual results are likely to be different from the forecast sustainability information since anticipated events frequently do not occur as expected and the variation could be material;
- For a forecast expressed as a range: For forecast information expressed in a range the actual results may fall outside of that range and the variation could be material; or

- For projections, scenario analyses or transition plans: The forward-looking sustainability information has been prepared for (state purpose), using a set of assumptions that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur. Consequently, users are cautioned that the forward-looking sustainability information is not used for purposes other than that described.

An Informative Summary of the Work Performed as the Basis for the Practitioner's Conclusion (Ref: Para. 187(i))

A554. For engagements that require the practitioner to obtain different levels of assurance on different topics, aspects of topics or disclosures, the practitioner may also delineate the procedures performed for each level of assurance so that it is clear to the users which procedures were performed in relation to the sustainability information.

A555R. The assurance report in a reasonable assurance engagement requires a section with the subheading "Practitioner's Responsibilities" that briefly describes procedures performed (see paragraph 187(h)(iv-v)). This is because, in a reasonable assurance engagement, describing in any level of detail the specific procedures performed would not assist users to understand that, in all cases where an unmodified conclusion is issued, sufficient appropriate evidence has been obtained to enable the practitioner to form a reasonable assurance conclusion.

A556L. In a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential for the intended users to understand the conclusion expressed in the limited assurance report. The summary of work performed is therefore ordinarily more detailed than the procedures described in the Practitioner's Responsibilities section in a reasonable assurance report. It also may be appropriate to include a description of procedures that were not performed that would ordinarily be performed in a reasonable assurance engagement. However, a complete identification of all such procedures may not be possible because the procedures in a limited assurance engagement vary in nature and timing from, and are less than for, a reasonable assurance engagement.

A557L. Factors to consider in determining the level of detail to be provided in the summary of work performed may include:

- Circumstances specific to the entity (e.g., the differing nature of the entity's activities compared to those typical in the sector).
- Specific engagement circumstances affecting the nature and extent of the procedures performed.
- The intended users' expectations of the level of detail to be provided in the report, based on market practice, or applicable law or regulation.

A558L. In describing the procedures performed in a limited assurance report, it is important that they are written in an objective way but are not summarized to the extent that they are ambiguous, nor written in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is also important that the description of the procedures not give the impression that an agreed-upon procedures engagement has been undertaken, and in most cases will not detail the entire work plan. The procedures for limited assurance, which are described in the "Summary of Work Performed" section, may appear to a user to be more comprehensive than the procedures described in a reasonable assurance engagement, so it may be helpful for the practitioner to explain why this is the case. This may be accomplished by including in the assurance report an indication of the differences between limited assurance and reasonable assurance to aid user understanding, especially when both reasonable and limited assurance are in the same assurance report.

Date of the Assurance Report (Ref: Para. 187(l))

A559. Including the assurance report date informs the intended users that the practitioner has considered the effect on the sustainability information and on the assurance report of events that occurred up to that date.

Form of the Assurance Report (Ref: Para. 187)

A560. An assurance conclusion expressed in a binary manner (e.g., concludes that the sustainability information either has, or has not, been prepared in accordance with the applicable criteria) may not be able to communicate sufficiently the complexities that may be present in a sustainability assurance engagement without additional contextual information to aid the intended users' understanding. The practitioner may choose a "short-form" or "long-form" style of reporting to facilitate effective communication to the intended users. "Short-form" reports ordinarily include only the basic elements, as required by paragraph 187. "Long-form" reports include other information and explanations that are not intended to affect the practitioner's conclusion, such as:

(a) Detailed description of the terms of the engagement;

(b) Findings relating to particular aspects of the engagement;

(c) Details of the qualifications and experience of the practitioner and others involved with the engagement;

(d) The practitioner's considerations of materiality, and whether those considerations are in respect of qualitative or quantitative sustainability information;

(e) The intended users of the assurance report and the purpose for which it has been prepared;

(f) The range of competencies that were needed to perform the engagement and how they have been deployed on the engagement;

(g) Explanation of why, in an assurance engagement, the practitioner cannot become involved in the preparation of the sustainability information because such an engagement is designed to give a conclusion by an independent practitioner over the sustainability information;

The practitioner may find it helpful to consider the significance of providing such information to the information needs of the intended users. As required by paragraph 186, additional information is clearly separated from the practitioner's conclusion and phrased in such a manner so as to make it clear that it is not intended to detract from that conclusion.

A561. Including the practitioner's recommendations on matters, such as improvements to the entity's information system, in the assurance report may imply that those matters have not been appropriately dealt with in preparing the sustainability information. Such recommendations may be communicated, for example, in a management letter or in discussion with those charged with governance. Considerations relevant to deciding whether to include recommendations in the assurance report include whether their nature is relevant to the information needs of intended users, and whether they are worded appropriately so that they will not be misunderstood as a qualification of the practitioner's conclusion on the sustainability information.

A562. In addition to the basic elements described in paragraph 187, the practitioner may decide to include additional information in the assurance report. Matters that may be relevant to the practitioner's decision to include such additional information may include:

(a) Sustainability information may be prepared for diverse groups of users, and may cover sustainability matters that are diverse in nature, ranging from a single aspect, such as greenhouse gases emitted by the entity during a period, through to an entity's strategy, business model and performance, which may comprise:

- Historical information.
- Forward-looking information.
- Processes, systems and controls.
- Performance against targets, goals or commitments.

(b) The sustainability matters may be complex to measure or evaluate, or be subject to measurement or evaluation uncertainties, which the intended users may not be aware of;

(c) The criteria used to measure or evaluate them may be set out in an established framework, may be developed by the entity, or may be selected from various frameworks, with or without further development by the entity, making it difficult for a user to understand how the sustainability information has been prepared.

(d) The sustainability information may be presented in the form of a traditional standalone report, or as part of a larger report or reports. It may also be presented partially in narrative and partially through the use of graphs, images, embedded videos or similar representations. The presentation could support the users' understanding of what is, and what is not, subject to the assurance engagement.

Name of the Engagement Leader in the Assurance Report (Ref: Para. 188)

A563. The objective of the firm in ISQM 1 is to design, implement and operate a system of quality management that provides the firm with reasonable assurance that:

- The firm and its personnel fulfill their responsibilities in accordance with professional requirements and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- Engagement reports issued by the firm or engagement leaders are appropriate in the circumstances.

Notwithstanding the objective of ISQM 1, naming the engagement leader in the assurance report is intended to provide further transparency to the users of the assurance report on sustainability information of a listed entity.

A564. Law, regulation or national standards may require that the practitioner's report include the name of the engagement leader responsible for assurance reports other than those of sustainability information of listed entities. The practitioner may also be required by law, regulation or national standards, or may decide to include additional information beyond the engagement leader's name in the assurance report to further identify the engagement leader, for example, the engagement leader's professional license number that is relevant to the jurisdiction where the engagement leader practices.

A565. In rare circumstances, the practitioner may identify information or be subject to experiences that indicate the likelihood of a personal security threat that, if the identity of the engagement leader is made public, may result in physical harm to the engagement leader, other engagement team members or other closely related individuals. However, such a threat does not include, for example, threats of legal liability or legal, regulatory or professional sanctions. Discussions with those charged with governance about circumstances that may result in physical harm may provide additional information about the likelihood or severity of the significant personal security threat. Law, regulation or national standards may establish further requirements that are relevant to determining whether the disclosure of the name of the engagement leader may be omitted.

Reference to a Practitioner's Expert in the Assurance Report (Ref: Para. 189)

A566. In some cases, law or regulation may require a reference to the work of a practitioner's expert in the assurance report, for example, for the purposes of transparency in the public sector. It may also be appropriate in other circumstances, for example, to explain the nature of a modification of the practitioner's conclusion, or when the work of an expert is integral to findings included in a long-form report. In such circumstances, the practitioner may need the permission of the practitioner's expert before making such a reference.

A567. As the practitioner has sole responsibility for the assurance conclusion expressed, it is important that, if the assurance report refers to a practitioner's expert, that the wording of that report does not imply that the practitioner's responsibility for the conclusion expressed is reduced because of the involvement of that expert. For example, in describing the practitioner's approach to an estimate that has been identified as having high estimation uncertainty, the practitioner may wish to highlight that the practitioner employed or engaged a practitioner's expert without identifying that expert. Such a reference to the use of a practitioner's expert does not reduce the practitioner's responsibility for the conclusion on the sustainability information and is therefore not inconsistent with paragraph 189.

A568. A generic reference in a long-form report to the engagement having been conducted by suitably qualified personnel, including subject matter experts and assurance specialists, is unlikely to be misunderstood as reduced responsibility. The potential for misunderstanding is higher, however, in the case of short-form reports, where minimum contextual information is able to be presented, or when law or regulation require the practitioner's expert to be referred to by name. Therefore, additional wording may be needed in such cases to prevent the assurance report implying that the practitioner's responsibility for the conclusion expressed is reduced.

Other Reporting Responsibilities

Assurance Report Prescribed by Law or Regulation (Ref: Para. 190-191)

A569. In some jurisdictions, the practitioner may have additional responsibilities to report on other matters that are additional to the practitioner's responsibilities under this ISSA. For example, the practitioner may be required to provide a conclusion on specific matters, such as compliance of the sustainability information with a digital taxonomy. Assurance standards in the specific jurisdiction often provide guidance on the practitioner's responsibilities with respect to specific additional reporting responsibilities in that jurisdiction.

A570. In some cases, the relevant law or regulation may require or permit the practitioner to report on these other responsibilities as part of their assurance report on the sustainability information. In other cases, the practitioner may be required or permitted to report on them in a separate report.

A571. Paragraphs 190-191 permit combined presentation of other reporting responsibilities and the practitioner's responsibilities under this ISSA only when they address the same elements as those presented under the reporting responsibilities required by this ISSA and the wording of the assurance report clearly differentiates the other reporting responsibilities from those under this ISSA. Such clear differentiation may make it necessary for the assurance report to refer to the source of the other reporting responsibilities and to state that such responsibilities are beyond those required under ISSA 5000. Otherwise, other reporting responsibilities are required to be addressed in a separate section in the assurance report with the heading "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section.

Emphasis of Matter Paragraph and Other Matter Paragraph

The Difference between Inherent Limitations, Emphasis of Matter and Other Matter Paragraphs (Ref: Para. 196)

A572. When significant inherent limitations are described in the assurance report in accordance with paragraph 187(g), the description of those inherent limitations is different from including an Emphasis of Matter paragraph in the assurance report. Inherent limitations are present in the measurement or evaluation of the sustainability matters, irrespective of whether they have been disclosed by management. However, it may be useful for management to disclose such inherent limitations in greater detail within the sustainability information. In some cases, the inherent measurement or evaluation uncertainties may be fundamental to the users' understanding of the sustainability information and may be described within the sustainability information.

A573. An Emphasis of Matter paragraph can only draw attention to a matter which is presented or disclosed by the management in the sustainability information. The content of an Emphasis of Matter paragraph includes a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the sustainability information. It also indicates that the practitioner's conclusion is not modified in respect of the matter emphasized. An Emphasis of Matter paragraph may be appropriate when, for example:

(a) Different criteria have been used or the criteria have been revised, updated or interpreted differently than in prior periods and this has had a fundamental effect on the sustainability information.

(b) A system breakdown for part of the period impacted the operation of controls or recording of matters material to the engagement.

A574. The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the sustainability information. An Other Matter paragraph does not include information that the practitioner is prohibited from providing by law, regulation or professional requirements, for example, ethical standards relating to confidentiality of information. An Other Matter paragraph also does not include information that is required to be provided by management. An Other Matter paragraph may be appropriate when, for example, the scope of the engagement has changed significantly from the prior period and this has not been stated in the sustainability information.

A575. A widespread use of Emphasis of Matter or Other Matter paragraphs may diminish the effectiveness of the practitioner's communication of such matters. Emphasis of Matter or Other Matter paragraphs are not a substitute for a modified assurance conclusion.

Criteria Designed for a Specific Purpose (Ref: Para. 197)

A576. In some cases, the applicable criteria used to measure or evaluate the sustainability matter may be designed for a specific purpose. For example, a regulator may require certain entities to use particular applicable criteria designed for regulatory purposes. To avoid misunderstanding, the practitioner alerts readers of the assurance report to this fact and that, therefore, the sustainability information may not be suitable for another purpose.

A577. In addition to the alert required by paragraph 197, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, for example, the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the assurance report. While an assurance report may be restricted in this way, the absence of a restriction regarding a particular user or purpose does not in itself indicate that a legal responsibility is owed by the practitioner in relation to that user or for that purpose. Whether a legal responsibility is owed will depend on the legal circumstances of each case and the relevant jurisdiction.

Other Information (Ref: Para. 198-199)

A578. When the practitioner disclaims a conclusion on the sustainability information, the assurance report does not include an "Other information" section because providing further details about the engagement, including a section to address other information, may overshadow the disclaimer of conclusion on the sustainability information as a whole.

A578A. If the other information includes the financial statements that have been audited by the practitioner or the practitioner's firm, ordinarily this is acknowledged in the Other Information section of the assurance report by expanding the statement required by paragraph 199(c) to indicate that a conclusion is not provided on the other information as part of the engagement on the sustainability information, but the practitioner or the practitioner's firm has audited the financial statements that form part of the other information and provided a separate auditor's opinion thereon that is included with the other information.

Modified Conclusion (Ref: Para. 200-203)

Qualified Conclusion Due to Limitation of Scope (Ref: Para. 200(a), 201-202)

A579. When there is a limitation of scope with respect to a material item in the sustainability information, the practitioner will not have obtained sufficient appropriate evidence about that matter. In these circumstances, the practitioner may be unable to conclude whether or not the disclosures in the other information related to this matter result in a material misstatement of the other information. Accordingly, the practitioner may need to modify the statement required by paragraph 199(d) to refer to the practitioner's inability to consider management's description of the matter in the other information in respect of which the assurance conclusion on the sustainability information has been qualified as explained in the Basis for Qualified Conclusion paragraph. The practitioner is nevertheless required to report any other uncorrected material misstatements of the other information that have been identified.

Impact of Modified Conclusions on the Statement on Other Information (Ref: Para. 200(b))

A580. A qualified or adverse assurance conclusion on the sustainability information may not have an impact on the statement on other information required by paragraph 199(e) if the matter for which the assurance conclusion has been modified is not included or otherwise addressed in the other information and the matter does not affect any part of the other information. In other circumstances, there may be implications for such reporting as described in paragraphs A581-A582.

A581. When the assurance conclusion is qualified, consideration may be given as to whether the other information is also materially misstated for the same matter as, or a related matter to, the matter giving rise to the qualified conclusion on the sustainability information.

A582. An adverse conclusion on the sustainability information relating to a specific matter(s) described in the Basis for Adverse Conclusion paragraph does not justify the omission of reporting of material misstatements of the other information that the practitioner has identified in the assurance report in accordance with paragraph 199(e)(ii). When an adverse conclusion has been expressed on the sustainability information, the practitioner may need to appropriately modify the statement required by paragraph 199(e)(ii), for example, to indicate that the disclosures in the other information are materially misstated for the same matter as, or a related matter to, the matter giving rise to the adverse conclusion on the sustainability information.

Effects of the Matter are Pervasive (Ref: Para. 201)

A583. The term 'pervasive' describes the effects on the sustainability information of misstatements or the possible effects on the sustainability information of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate evidence. Pervasive effects on the sustainability information are those that, in the practitioner's professional judgment:

(a) Are not confined to specific aspects of the sustainability information;

(b) If so confined, represent or could represent a substantial proportion of the sustainability information; or

(c) In relation to disclosures, are fundamental to the intended users' understanding of the sustainability information.

A584. The nature of the matter, and the practitioner's judgment about the pervasiveness of the effects or possible effects on the sustainability information, affects the type of conclusion to be expressed.

Examples of Modified Conclusions (Ref: Para. 200)

A585L. Examples of a qualified conclusion for a limited assurance engagement (with a material misstatement)

- Qualified conclusion (compliance framework) – "Based on the procedures performed and the evidence obtained, except for the effect of the matter described in the Basis for Qualified Conclusion section of our report, nothing has come to our attention that causes us to believe that the [sustainability information] is not prepared, in all material respects, in accordance with XYZ criteria."
- Qualified conclusion (fair presentation framework) – "Based on the procedures performed and the evidence obtained, except for the effect of the matter described in the Basis for Qualified Conclusion section of our report, nothing has come to our attention that causes us to believe that the [sustainability information] is not fairly presented, in all material respects, in accordance with XYZ criteria."

A586R. Examples of qualified conclusion for a reasonable assurance engagement (with a material misstatement):

- Qualified conclusion (compliance framework) – "Except for the effect of the matter described in the Basis for Qualified Conclusion section of our report, the [sustainability information] is prepared, in all material respects, in accordance with XYZ criteria."
- Qualified conclusion (fair presentation framework) – "Except for the effect of the matter described in the Basis for Qualified Conclusion section of our report, the [sustainability information] is fairly presented, in all material respects, in accordance with XYZ criteria."

A587. Examples of adverse conclusions and a disclaimer of conclusion for both limited and reasonable assurance engagements:

- Adverse conclusion (an example for a material and pervasive misstatement for information prepared under a compliance framework) – "Because of the significance of the matter described in the Basis for Adverse Conclusion section of our report, the [sustainability information] is not prepared in accordance with "XYZ criteria."
- Adverse conclusion (an example for a material and pervasive misstatement for information prepared under a fair presentation framework) – "Because of the significance of the matter described in the Basis for Adverse Conclusion section of our report, the [sustainability information] does not present fairly the entity's compliance with XYZ criteria."
- Disclaimer of conclusion (an example for a material and pervasive limitation of scope) – "Because of the significance of the matter described in the Basis for Disclaimer of Conclusion section of our report, we have not been able to obtain sufficient appropriate evidence to form a conclusion on the [sustainability information]. Accordingly, we do not express a conclusion on that [sustainability information]."

Comparative Information (Ref: Para. 204-208)

A588. Law or regulation, the criteria or the terms of the engagement, may specify the requirements regarding the presentation, reporting and assurance of the comparative information in the sustainability information.

A589. If there are inconsistencies between the comparative information and the current-period sustainability information, the practitioner may consider the reasons for those differences to evaluate whether those inconsistencies are addressed in accordance with the criteria. When sustainability information includes comparisons of period-on-period information, such as references to percentage reductions or increases in measures or key performance indicators, it is important that the practitioner consider the appropriateness of the comparisons. These may be inappropriate due to:

(a) Significant changes in operations from the prior period;

(b) Significant changes in conversion factors;

(c) Significant changes in assumptions, or

(d) Inconsistency of sources or methods of measurement or evaluation.

A591. Information reported in a prior period may need to be restated in accordance with law or regulation or the applicable criteria because of, for example, improved scientific knowledge, significant structural changes in the entity, the availability of more accurate quantification methods, or the discovery of a significant error.

A591A. When comparative information is presented with the current sustainability information, but some or all of that comparative information is not referred to in the practitioner's conclusion, it is important that the status of such information is clearly identified in both the sustainability information and the assurance report in accordance with paragraphs 206 and 207.

A592. The identification of information required under paragraphs 206 and 207 to be included in an "Other Matter" paragraph with respect to an assurance engagement conducted on the comparative information in the prior period, may be complex and lengthy. In these circumstances, it may be appropriate to include this information by way of reference if it is included in the sustainability information, or as an attachment to the assurance report.

A593. If the engagement does not include assurance on comparative information, the requirement to perform procedures in the circumstances addressed by paragraph 208 is to satisfy the practitioner's ethical obligation to not knowingly be associated with materially false or misleading information.

Documentation

Matters Arising After the Date of the Practitioner's Report (Ref: Para. 209)

A594. Examples of exceptional circumstances include facts that become known to the practitioner after the date of the assurance report but which existed at that date and which, if known at that date, might have caused the sustainability information to be amended or the practitioner to modify the conclusion in the assurance report, for example, the discovery of a significant uncorrected error. The resulting changes to the engagement documentation are reviewed in accordance with the firm's policies or procedures with respect to the nature, timing and extent of the review of engagement team members' work as required by ISQM 1, with the engagement leader taking final responsibility for the changes.

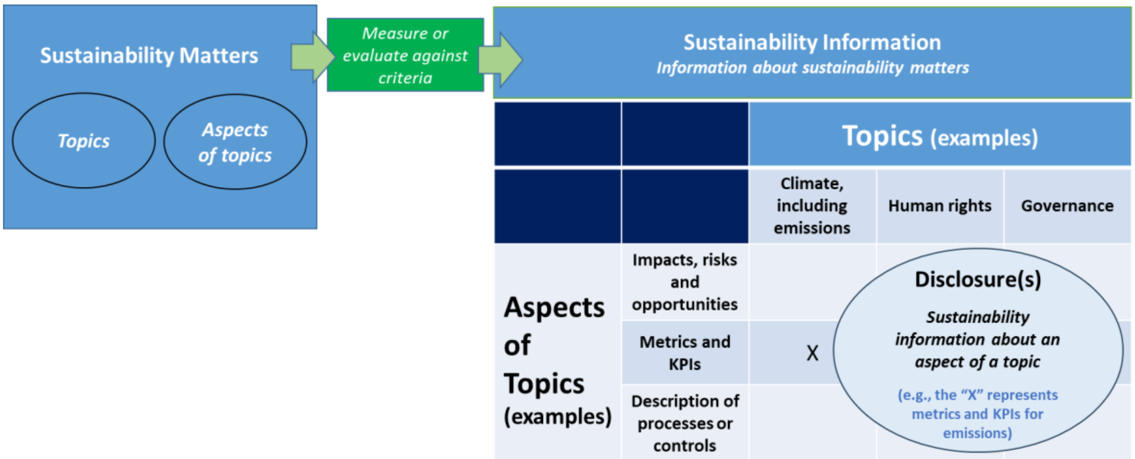
Appendix 1

(Ref: Para. 2, A22-A23)

Sustainability Matters and Sustainability Information

1. This appendix explains the relationship between sustainability matters (i.e., the underlying subject matter); sustainability information (i.e., the subject matter information), which results from measuring or evaluating the sustainability matters against the criteria; and the related disclosures.

2. This relationship can be illustrated as follows:



3. Paragraph 74 requires the practitioner to obtain a preliminary knowledge of the sustainability information to be reported by the entity. As a part of establishing whether the preconditions for an assurance engagement are present, paragraph 75(a) requires the practitioner to consider whether the entity has a process to identify sustainability information to be reported.

4. As explained in paragraph 3, sustainability information is reported in accordance with the criteria. The topics and aspects of topics of sustainability matters are considered by management in determining the sustainability information to be reported, and are manifested in the related disclosures. A disclosure represents sustainability information reported by the entity about an aspect of a topic. A more comprehensive list of examples of topics and aspects of topics is provided in paragraph A44.

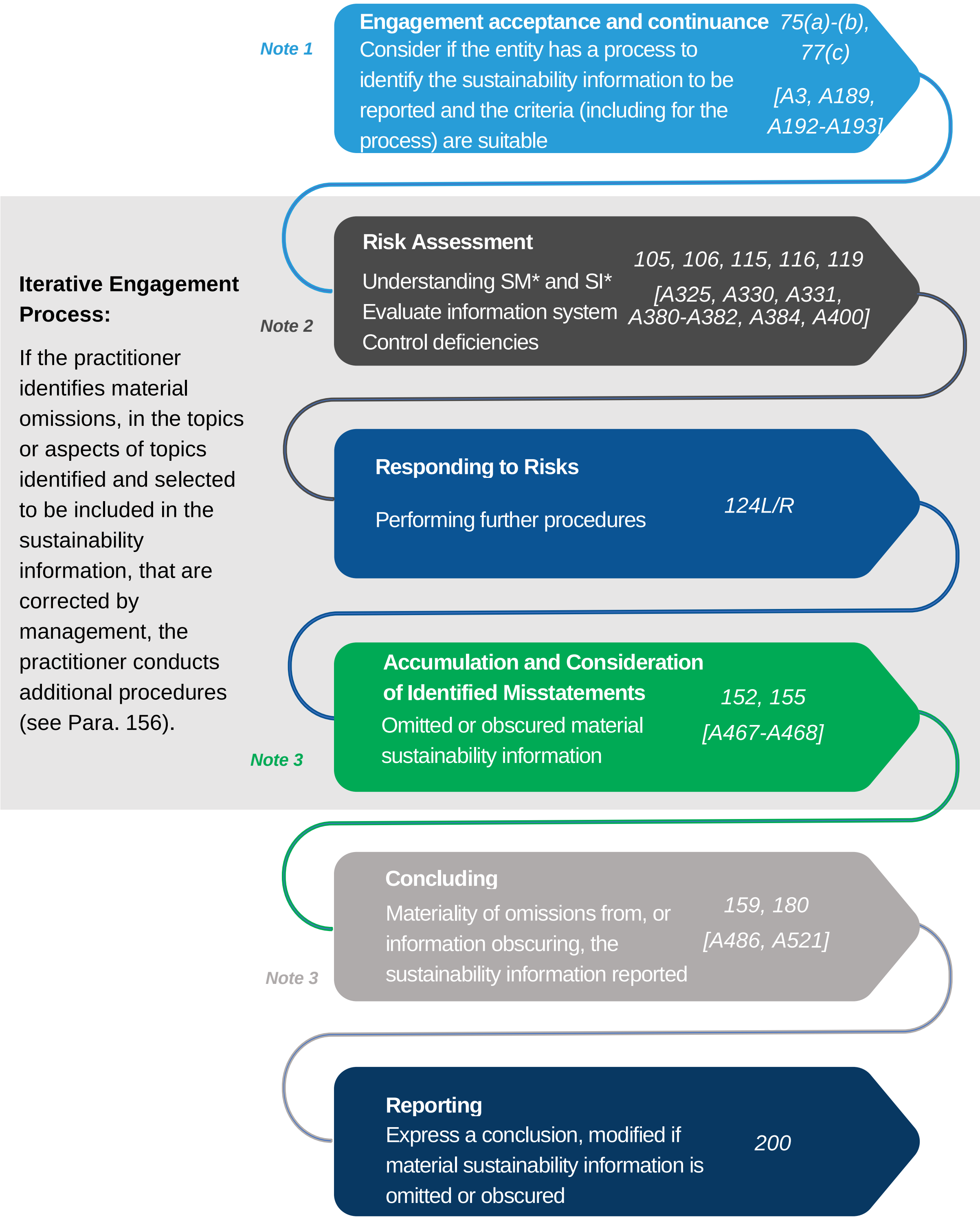
5. Disclosures can be in various forms (e.g., narrative descriptions or other qualitative information, tables with key performance indicators or other quantitative information, or a combination thereof) and may be limited to a single paragraph or table or may span multiple pages in a separate sustainability report, part of the entity's annual report or some other reporting mechanism. How the entity presents the disclosures (i.e., how the entity aggregates or disaggregates the sustainability information for purposes of presentation) is determined by the criteria. Whether and how the practitioner may further group the disclosures for purposes of planning and performing the engagement is a matter of professional judgment, as explained in paragraph A289.

Appendix 2

(Ref: Para. 4, A3)

The Practitioner's Consideration of the Entity's Process to Identify Sustainability Information to be Reported

1. This appendix sets out the requirements and application material relevant to the practitioner's conduct of an engagement, in the circumstances when the entity has a process to identify sustainability information to be reported, as described in paragraph 4.



**SM - Sustainability matters; **SI - Sustainability information*

Notes to the flowchart:

1. The practitioner is required to consider whether the entity has a process to identify the sustainability information to be reported (paragraph 75(a)). The practitioner is also required to evaluate the suitability of the criteria for the sustainability information, which would include understanding whether the entity is required to have such a process and whether the criteria in respect of that process exhibit the suitability characteristics in paragraph 77(c), in particular the relevance and completeness of the criteria.

2. As part of the practitioner's understanding of the entity's information system and controls, the practitioner obtains an understanding of the entity's process, and based on that understanding, and in the context of the reporting framework, the practitioner evaluates whether it appropriately supports the preparation of the sustainability information (paragraphs 115 and 116). The practitioner's understanding of the entity's process, along with other risk assessment procedures, may highlight where there are risks of material misstatement, including in relation to the completeness of the sustainability information to be reported.

3. Misstatements accumulated include any misstatements arising from material omissions in, or obscuring of, the sustainability information to be reported.

Requirements and application material for reference

Requirement [Application Material] Paragraph Number	**Relevant extract of the requirement wording** The practitioner shall…
75(a) [A3, A189]	Consider whether the entity has a process to identify the sustainability information to be reported.
75(b) [A192-A193]	Evaluate whether management, or those charged with governance, when appropriate, have a reasonable basis for the sustainability information.
77(c)	Evaluate whether the criteria that the practitioner expects to be applied in the preparation of the sustainability information are suitable for the engagement circumstances and will be available to the intended users. In doing so, the practitioner shall:… (c) Evaluate whether the criteria exhibit the following characteristics: (i) Relevance; (ii) Completeness...
105 [A325]	Obtain an understanding of the sustainability matters and the sustainability information, including the characteristics of events or conditions that could give rise to material misstatement of the disclosures.
106 [A330-A331]	Determine whether the applicable criteria are suitable for the engagement circumstances, including that they exhibit the characteristics in paragraph 77.

Requirement [Application Material] Paragraph Number	**Relevant extract of the requirement wording** The practitioner shall…
115 [A380-A382]	Obtain an understanding of the entity's information system and communication relevant to the sustainability matters and the preparation of the sustainability information, including:(a) the entity's process to identify sustainability information to be reported....
116 [A384]	Evaluate whether the entity's information system appropriately supports the preparation of the sustainability information in accordance with the applicable criteria.
119 [A400]	Based on the practitioner's understanding of the components of the entity's system of internal control, the practitioner shall consider whether one or more control deficiencies have been identified.
124L/R	Design and perform further procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement, whether due to fraud or error, at the disclosure level/ assertion level.
152 [A467-A468]	Accumulate misstatements identified during the engagement, other than those that are clearly trivial.
155	Communicate to management, on a timely basis, all misstatements accumulated during the assurance engagement, and shall request management to correct those misstatements.
159 [A486]	Determine whether uncorrected misstatements are material, individually or in the aggregate. In making this determination, the practitioner shall consider the size and nature of the misstatements, and the particular circumstances of their occurrence.
180 [A521]	Form a conclusion about whether the sustainability information is free from material misstatement, whether due to fraud or error...
200	Express a modified conclusion ... when, in the practitioner's professional judgment, a scope limitation exists, and the effect of the matter could be material ... (or) ... the sustainability information is materially misstated.

Appendix 3

(Ref: Para. A532)

Illustrations of Assurance Reports on Sustainability Information

- Illustration 1: Unmodified Reasonable Assurance Report on Sustainability Information of a Listed Entity Prepared in Accordance with Fair Presentation Criteria
- Illustration 2: Unmodified Limited Assurance Report on Sustainability Information of an Entity Other than a Listed Entity Prepared in Accordance with Compliance Criteria
- Illustration 3: Unmodified Combined Reasonable and Limited Assurance Report on Sustainability Information for an Entity Other than a Listed Entity Prepared in Accordance with Compliance Criteria
- Illustration 4: Modified Limited Assurance Report on Sustainability Information of an Entity Other than a Listed Entity Prepared in Accordance with Compliance Criteria

Illustration 1 - Unmodified Reasonable Assurance Report on Sustainability Information of a Listed Entity Prepared in Accordance with Fair Presentation Criteria

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

- A reasonable assurance engagement relating to the entirety of the Sustainability Report of ABC Company, a listed entity, for the year ended December 31, 20X1.
- The sustainability information is prepared by management of the entity in accordance with fair presentation criteria (Sustainability Reporting Framework Version x.1).
- The Sustainability Report includes comparative information that is not referred to in the practitioner's conclusion. The comparative information was subject to a reasonable assurance engagement by the same practitioner in the prior period and the practitioner's conclusion was unmodified.
- Management of the Company is the engaging party.
- Those charged with governance are responsible for oversight of the Company's sustainability reporting process.
- The terms of the assurance engagement reflect the description of management's responsibility for the sustainability information in ISSA 5000.
- The practitioner has concluded that an unmodified (i.e., "clean") opinion is appropriate based on the evidence obtained.
- The relevant ethical requirements that apply to the assurance engagement comprise the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), together with the ethical requirements relating to assurance engagements in the jurisdiction, and the assurance report refers to both. The IESBA Code and the ethical requirements relating to the assurance engagement in the jurisdiction include independence requirements that are applicable to sustainability assurance engagements of public interest entities. They also require the practitioner to publicly disclose that the independence requirements applicable to sustainability assurance engagements of public interest entities were applied.

- The firm of which the practitioner is a member applies ISQM 1.[6]
- The Sustainability Report and the practitioner's report thereon have been included in the Company's Annual Report. The practitioner has obtained the Annual Report prior to the date of the assurance report and has not identified a material misstatement of the other information in the Annual Report.

The following report is for illustrative purposes only and is not intended to be exhaustive or applicable to all situations. The assurance report needs to be tailored to the engagement circumstances.

INDEPENDENT PRACTITIONER'S REASONABLE ASSURANCE REPORT ON ABC'S SUSTAINABILITY INFORMATION

To the Management of ABC

Reasonable Assurance Report on the Sustainability Information[7]

Reasonable Assurance Opinion

We have conducted a reasonable assurance engagement on the Sustainability Report of ABC Company (the "Company") for the year ended December 31, 20X1 (the "Sustainability Information").

In our opinion, the accompanying Sustainability Information is fairly presented, in all material respects, in accordance with the Sustainability Reporting Framework Version x.1.

Basis for Opinion

We conducted our reasonable assurance engagement in accordance with International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements,* issued by the International Auditing and Assurance Standards Board.

Our responsibilities under this standard are further described in the *Practitioner's Responsibilities* section of our report.

We are independent of the Company in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) issued by the International Ethics Standards Board for Accountants, as applicable to sustainability assurance engagements of public interest entities, together with the ethical requirements that are relevant to assurance engagements of public interest entities in [*title/identification of requirements, name of appropriate authority and jurisdiction*]. We have also fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our firm applies International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management, including policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

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

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6 International Standard on Quality Management (ISQM) 1, *Quality Management for Firms That Perform Audits or Reviews of Financial Statement, or Other Assurance or Related Services Engagements*

7 The sub-title "Reasonable Assurance Report on the Sustainability Information" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Emphasis of Matter[8]

We draw attention to [identify the specific disclosure in the sustainability information], which describes […]. Our opinion is not modified in respect of this matter.

Other Information[9]

Management of the Company is responsible for the other information. The other information comprises the [information included in the Company's Annual report],[10] but does not include the Sustainability Information and our assurance report thereon.

Our opinion on the Sustainability Information does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our assurance engagement on the Sustainability Information, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the Sustainability Information or our knowledge obtained in the assurance engagement, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities for the Sustainability Information

Management of the Company is responsible for:

- The preparation and fair presentation of the Sustainability Information in accordance with the Sustainability Reporting Framework Version x.1.
- Designing, implementing and maintaining such internal control that management determines is necessary to enable the preparation of the Sustainability Information, in accordance with the Sustainability Reporting Framework Version x.1, that is free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Company's sustainability reporting process.

Inherent Limitations in Preparing the Sustainability Information[11]

As discussed in *[identify the specific disclosure in the sustainability information]*, *[provide a specific description of any significant inherent limitations associated with the measurement or evaluation of the sustainability matters against the applicable criteria]*.

Practitioner's Responsibilities

Our objectives are to plan and perform the assurance engagement to obtain reasonable assurance about whether the Sustainability Information is free from material misstatement, whether due to fraud or error, and to issue an assurance report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence decisions of users taken on the basis of the Sustainability Information.

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8 Include if the practitioner considers it necessary in the engagement circumstances – see paragraph 179.

9 Another appropriate heading may be used, such as "Information Other than the Sustainability Information and Reasonable Assurance Report Thereon."

10 A more specific description of the other information, such as "the financial statements and notes thereto and chairman's statement," may be used to identify the other information.

11 Include paragraph if relevant to the engagement circumstances – see paragraph 170(g).

As part of a reasonable assurance engagement in accordance with ISSA 5000, we exercise professional judgment and maintain professional skepticism throughout the engagement. We also:

- Perform risk assessment procedures, including obtaining an understanding of internal control relevant to the engagement, to identify and assess the risks of material misstatement, whether due to fraud or error, at the assertion level for the disclosures but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.[12]
- Design and perform procedures responsive to the assessed risks of material misstatement at the assertions level for the disclosures. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Report on Other Legal and Regulatory Requirements

[*The form and content of this section of the assurance report will vary depending on the nature of the practitioner's other reporting responsibilities*. *The matters addressed by other law, regulation or national standards (referred to as "other reporting responsibilities") are addressed within this section unless the other reporting responsibilities address the same report elements as those presented in accordance with the reporting responsibilities required by ISSA 5000 as part of the Reasonable Assurance Report on the Sustainability Information section. The reporting of other reporting responsibilities that address the same report elements as those required by this ISSA may be combined (i.e., included in the Reasonable Assurance Report on the Sustainability Information section under the appropriate subheadings) provided that the wording in the assurance report clearly differentiates the other reporting responsibilities from the reporting that is required by ISSA 5000, when such a difference exists*.]The engagement leader on the assurance engagement resulting in this independent practitioner's assurance report is [*name*].

[*Signature in the name of the assurance firm, the personal name of the assurance practitioner, or both, as appropriate for the particular jurisdiction*]

[*Practitioner's address*]

[*Date of the assurance report*]

12 Remove the words "but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control " if the reasonable assurance engagement includes an opinion on the effectiveness of internal control.

Illustration 2 - Unmodified Limited Assurance Report on Sustainability Information of an Entity Other than a Listed Entity Prepared in Accordance with Compliance Criteria

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

- A limited assurance engagement relating to the entirety of the Sustainability Report of ABC Company, an entity other than a listed entity, for the year ended December 31, 20X1, as required by law or regulation.
- The sustainability information is presented in a stand-alone document (i.e., the entity's Sustainability Report).
- The Sustainability Information is prepared by management of the entity in accordance with compliance criteria (XYZ Law of Jurisdiction X).
- The Sustainability Report includes comparative information that is not referred to in the practitioner's conclusion. The comparative information was subject to a limited assurance engagement by the same practitioner in the prior period and the practitioner's conclusion was unmodified.
- Management of the Company is the engaging party.
- The terms of the assurance engagement reflect the description of management's responsibility for the sustainability information in ISSA 5000.
- The practitioner has concluded that an unmodified (i.e., "clean") conclusion is appropriate based on the evidence obtained.
- The relevant ethical requirements that apply to the assurance engagement comprise the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), together with the ethical requirements relating to assurance engagements in the jurisdiction, and the assurance report refers to both.
- The firm of which the practitioner is a member applies ISQM 1.[13]
- There is no other information because the sustainability information is presented in a stand-alone document.

The following report is for illustrative purposes only and is not intended to be exhaustive or applicable to all situations. The assurance report needs to be tailored to the engagement circumstances.

[13] International Standard on Quality Management (ISQM) 1, *Quality Management for Firms That Perform Audits or Reviews of Financial Statement, or Other Assurance or Related Services Engagements*

INDEPENDENT PRACTITIONER'S LIMITED ASSURANCE REPORT ON ABC'S SUSTAINABILITY INFORMATION

To the Management of ABC

Limited Assurance Report on the Sustainability Information[14]

Limited Assurance Conclusion

We have conducted a limited assurance engagement on the Sustainability Report of ABC Company (the Company) for the year ended December 31, 20X1 (the "Sustainability Information").

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the accompanying Sustainability Information is not prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

Basis for Conclusion

We conducted our limited assurance engagement in accordance with International Standard of Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements,* issued by the International Auditing and Assurance Standards Board.

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

Our responsibilities under this standard are further described in the *Practitioner's Responsibilities* section of our report.

We are independent of the Company in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) issued by the International Ethics Standards Board for Accountants, together with the ethical requirements that are relevant to our assurance engagement of the Sustainability Information in [*title/identification of requirements, name of appropriate authority and jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our firm applies International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements,* which requires the firm to design, implement and operate a system of quality management, including policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

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

Emphasis of Matter[15]

We draw attention to [identify the specific disclosure in the sustainability information], which describes […]. Our conclusion is not modified in respect of this matter.

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[14] The sub-title "Limited Assurance Report on the Sustainability Information" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

[15] Include if the practitioner considers it necessary in the engagement circumstances – see paragraph 179.

Responsibilities for the Sustainability Information

Management of the Company is responsible for:

- The preparation of the Sustainability Information in accordance with XYZ Law of Jurisdiction X.
- Designing, implementing and maintaining such internal control that management determines is necessary to enable the preparation of the Sustainability Information, in accordance with XYZ Law of Jurisdiction X that is free from material misstatement, whether due to fraud or error.

Inherent Limitations in Preparing the Sustainability Information[16]

As discussed in *[identify the specific disclosure in the sustainability information]*, *[provide a specific description of any significant inherent limitations associated with the measurement or evaluation of the sustainability matters against the applicable criteria]*.

Practitioner's Responsibilities

Our objectives are to plan and perform the assurance engagement to obtain limited assurance about whether the sustainability information is free from material misstatement, whether due to fraud or error, and to issue a limited assurance report that includes our conclusion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence decisions of users taken on the basis of the Sustainability Information.

As part of a limited assurance engagement in accordance with ISSA 5000, we exercise professional judgment and maintain professional skepticism throughout the engagement. We also:

- Perform risk assessment procedures, including obtaining an understanding of internal control relevant to the engagement, to identify and assess the risks of material misstatements, whether due to fraud or error, at the disclosure level but not for the purpose of providing a conclusion on the effectiveness of the entity's internal control.[17]
- Design and perform procedures responsive to assessed risks of material misstatement at the disclosures level. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Summary of the Work Performed

A limited assurance engagement involves performing procedures to obtain evidence about the Sustainability Information. The nature, timing and extent of procedures selected depend on professional judgment, including the assessed risks of material misstatement at the disclosures level, whether due to fraud or error.

---

[16] Include paragraph if relevant to the engagement circumstances – see paragraph 170(g).

[17] Remove "but not for the purpose of providing a conclusion on the effectiveness of the entity's internal control " if the limited assurance engagement includes a conclusion on the effectiveness of internal control.

In conducting our limited assurance engagement, we:

[*Insert a summary of the nature and extent of procedures performed that, in the practitioner's judgment, provides additional information that may be relevant to the users' understanding of the work performed to support the practitioner's conclusion and the level of assurance obtained.*][18]

- […]

[*Signature in the name of the assurance firm, the personal name of the assurance practitioner, or both, as appropriate for the particular jurisdiction*]

[*Practitioner's address*]

[*Date of the limited assurance report*]

[18] The procedures are to be summarized but not to the extent that they are ambiguous, nor described in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is important that the description of the procedures does not give the impression that those procedures were agreed upon by the assurance practitioner with management and in most cases will not detail the entire work plan.

Illustration 3 - Unmodified Combined Reasonable and Limited Assurance Report on Sustainability Information for an Entity Other than a Listed Entity Prepared in Accordance with Compliance Criteria, comprising:

a) Reasonable Assurance Opinion on the selected disclosures, [identified by …],[19] from the Sustainability Report ("Information RA")

b) Limited Assurance Conclusion on the selected disclosures, [identified by …],[20] from the Sustainability Report ("Information LA')

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

- A reasonable assurance engagement relating to Information RA and a limited assurance engagement relating to Information LA of the Sustainability Report of ABC Company, an entity other than a listed entity, for the year ended December 31, 20X1, as required by law or regulation.
- The Sustainability Report represents the sustainability information reported by the entity and Information RA and Information LA represent the sustainability information subject to the assurance engagement.
- The Sustainability Report is prepared by management of the entity in accordance with compliance criteria (XYZ Law of Jurisdiction X).
- The Sustainability Report includes comparative information that is not referred to in the practitioner's conclusion. With respect to the comparative information: comparative Information RA was subject to a reasonable assurance engagement, and comparative Information LA was subject to a limited assurance engagement, in the prior period, and the practitioner's respective conclusions were unmodified.
- Management of the Company is the engaging party.
- The terms of the assurance engagement accurately reflect the description of management's responsibility for the sustainability information in ISSA 5000.
- The assurance practitioner has concluded that, based on the evidence obtained, an unmodified (i.e., "clean") reasonable assurance opinion and limited assurance conclusion are appropriate with respect to Information RA and Information LA, respectively.
- The relevant ethical requirements that apply to the assurance engagement comprise the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants *(including International Independence Standards)* (IESBA Code), together with the ethical requirements relating to assurance engagements in the jurisdiction, and the assurance report refers to both.
- The firm of which the practitioner is a member applies ISQM 1.[21]

[19] Provide a specific identification and location of the information that is subject to a reasonable assurance opinion, which should be distinct from the information subject to a limited assurance conclusion (e.g. by tagging the specific disclosures in the Sustainability Information, Title of Section of the Sustainability Information, an Appendix to Assurance Report, etc.).

[20] Provide a specific identification and location of the information that is subject to a limited assurance conclusion, which should be distinct from the information subject to a reasonable assurance conclusion (e.g. by tagging the specific disclosures in the Sustainability Information, Title of Section of the Sustainability Information, an Appendix to Assurance Report, etc.).

[21] International Standard on Quality Management (ISQM) 1, *Quality Management for Firms That Perform Audits or Reviews of Financial Statement, or Other Assurance or Related Services Engagements*

- Information LA and Information RA, and the practitioner's report thereon, have been included in the Company's Annual Report. The practitioner has obtained the Annual Report prior to the date of the assurance report and has not identified a material misstatement of the other information in the Annual Report.

The following report is for illustrative purposes only and is not intended to be exhaustive or applicable to all situations. The assurance report needs to be tailored to the engagement circumstances.

INDEPENDENT PRACTITIONER'S REASONABLE AND LIMITED ASSURANCE REPORT ON ABC'S SUSTAINABILITY INFORMATION

To the Management of ABC

Reasonable Assurance Opinion

We have conducted a reasonable assurance engagement on the selected disclosures, [identified by …],[22] of the Sustainability Report of ABC Company (the Company) for the year ended December 31, 20X1 ("Information RA").

In our opinion, the Information RA of the accompanying Sustainability Report is prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

Limited Assurance Conclusion

We have conducted a limited assurance engagement on the selected disclosures, [identified by …],[23] included in the Sustainability Report of the Company for the year ended December 31, 20X1 ("Information LA").

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the Information LA of the accompanying Sustainability Report is not prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

Basis for Reasonable Assurance Opinion and Limited Assurance Conclusion

We conducted our engagement in accordance with ISSA 5000 *General Requirements for Sustainability Assurance Engagements,* issued by the International Auditing and Assurance Standards Board.

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

Our responsibilities under this standard are further described in the *Practitioner's Responsibilities* section of our report.

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) issued by the International Ethics Standards Board for Accountants, together with the ethical requirements that are relevant to our assurance engagement of the sustainability information in [title/identification of

[22] Provide a specific identification and location of the information that is subject to a reasonable assurance opinion, which should be distinct from the information subject to a limited assurance conclusion (e.g. by tagging the specific disclosures in the Sustainability Information, Title of Section of the Sustainability Information, an Appendix to Assurance Report, etc.).

[23] Provide a specific identification and location of the information that is subject to a limited assurance conclusion, which should be distinct from the information subject to a reasonable assurance conclusion (e.g. by tagging the specific disclosures in the Sustainability Information, Title of Section of the Sustainability Information, an Appendix to Assurance Report, etc.).

requirements, name of appropriate authority and jurisdiction], and we have fulfilled our other responsibilities in accordance with these requirements and the IESBA Code.

Our firm applies International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management, including policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our reasonable assurance opinion and limited assurance conclusion.

Emphasis of Matter[24]

We draw attention to [identify the specific disclosure in the sustainability information] from the Information LA of the Sustainability Report, which describes […]. Our limited assurance conclusion is not modified in respect of this matter.

Other Information[25]

Management of the Company is responsible for the other information. The other information comprises the [information included in the Company's Annual Report],[26] but does not include the Information RA and Information LA subject to this engagement and our assurance report thereon.

Our reasonable assurance opinion and limited assurance conclusion on Information RA and Information LA, respectively, do not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our limited and reasonable assurance engagements on the Information RA and Information LA, respectively, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the Information RA and Information LA, respectively, or our knowledge obtained in the assurance engagement, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities for the Sustainability Information

Management of the Company is responsible for:

- The preparation of the Information RA and Information LA in accordance with XYZ Law of Jurisdiction X.
- Designing, implementing and maintaining such internal control that management determines is necessary to enable the preparation of the Information RA and Information LA, in accordance with XYZ Law of Jurisdiction X, that is free from material misstatement, whether due to fraud or error.

[24] Include if the practitioner considers it necessary in the engagement circumstances – see paragraph 179.

[25] Another appropriate heading may be used, such as "Information Other than the Sustainability Information and Reasonable and Limited Assurance Report Thereon".

[26] A more specific description of the other information, such as "the financial statements and notes thereto and chairman's statement," may be used to identify the other information.

Inherent Limitations in Preparing the Sustainability Information[27]

As discussed in *[identify the specific disclosure in the sustainability information]*, *[provide a specific description of any significant inherent limitations associated with the measurement or evaluation of the sustainability matters against the applicable criteria]*.

Practitioner's Responsibilities

Our objectives are to:

(a) Plan and perform the assurance engagement to obtain reasonable assurance about whether the Information RA is free from material misstatement, whether due to fraud or error, and to issue an assurance report that includes our opinion.

(b) Plan and perform the assurance engagement to obtain limited assurance about whether the Information LA is free from material misstatement, whether due to fraud or error and to issue an assurance report that includes our conclusion.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence decisions of users taken on the basis of the Information RA and Information LA.

As part of both limited and reasonable assurance engagements in accordance with ISSA 5000, we exercise professional judgment and maintain professional skepticism throughout the engagement. We also:

(a) For a reasonable assurance engagement:

- Perform risk assessment procedures, including obtaining an understanding of internal control relevant to the engagement, to identify and assess the risks of material misstatement, whether due to fraud or error, at the assertion level for the disclosures but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.[28]
- Design and perform procedures responsive to the assessed risks of material misstatement at the assertions level for the disclosures in the Information RA. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) For a limited assurance engagement:

- Perform risk assessment procedures, including obtaining an understanding of internal control relevant to the engagement, to identify and assess the risks of material misstatements, whether due to fraud or error, at the disclosure level but not for the purpose of providing a conclusion on the effectiveness of the entity's internal control.[29]

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27 Include paragraph if relevant to the engagement circumstances – see paragraph 170(g).

28 Remove "but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control" if the reasonable assurance engagement includes an opinion on the effectiveness of internal control.

29 Remove "but not for the purpose of providing a conclusion on the effectiveness of the entity's internal control" if the limited assurance engagement includes a conclusion on the effectiveness of internal control.

- Design and perform procedures responsive to assessed risks of material misstatement at the disclosures level in the Information LA. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Summary of the Work Performed for Limited Assurance Conclusion

A limited assurance engagement involves performing procedures to obtain evidence about the Information LA. The nature, timing and extent of procedures selected depend on professional judgment, including the assessed risks of material misstatement at the disclosures level, whether due to fraud or error, in the Information LA.

In conducting our limited assurance engagement, we:

[*Insert a summary of the nature and extent of procedures performed that, in the practitioner's judgment, provides additional information that may be relevant to the users' understanding of the work performed to support the practitioner's conclusion and the level of assurance obtained.*][30]

- […]

[*Signature in the name of the assurance firm, the personal name of the assurance practitioner, or both, as appropriate for the particular jurisdiction*]

[*Practitioner's address*]

[*Date of the assurance report*]

30 The procedures are to be summarized but not to the extent that they are ambiguous, nor described in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is important that the description of the procedures does not give the impression that those procedures were agreed upon by the assurance practitioner with management, and in most cases will not detail the entire work plan.

Illustration 4 – Modified Limited Assurance Report on Sustainability Information of an Entity Other than a Listed Entity Prepared in Accordance with Compliance Criteria

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

- A limited assurance engagement relating to the entirety of the Sustainability Report of ABC Company, an entity other than a listed entity, for the year ended December 31, 20X1, as required by law or regulation.
- The sustainability information is presented in a stand-alone document (i.e., the entity's Sustainability Report).
- The sustainability information is prepared by management of the entity in accordance with compliance criteria (XYZ Law of Jurisdiction X).
- The Sustainability Information includes comparative information that is not referred to in the practitioner's conclusion. The comparative information was subject to a limited assurance engagement by the same practitioner in the prior period and the practitioner's conclusion was unmodified.
- Management of the Company is the engaging party.
- The terms of the assurance engagement reflect the description of management's responsibility for the sustainability information in ISSA 5000.
- The assurance practitioner has concluded that a modified conclusion is appropriate due to a limitation of scope arising from an inability to obtain sufficient appropriate evidence regarding an identified matter that the practitioner has determined is material but not pervasive.
- The relevant ethical requirements that apply to the assurance engagement comprise the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), together with the ethical requirements relating to assurance engagements in the jurisdiction, and the assurance report refers to both.
- The firm of which the practitioner is a member applies ISQM 1.[31]
- There is no other information because the entity's sustainability information is presented in a stand-alone document**.**

The following report is for illustrative purposes only and is not intended to be exhaustive or applicable to all situations. The assurance report needs to be tailored to the engagement circumstances.

[31] International Standard on Quality Management (ISQM) 1, *Quality Management for Firms That Perform Audits or Reviews of Financial Statement, or Other Assurance or Related Services Engagements*

INDEPENDENT PRACTITIONER'S LIMITED ASSURANCE REPORT ON ABC'S SUSTAINABILITY INFORMATION

To the Management of ABC

Limited Assurance Report on the Sustainability Information[1]

Qualified Limited Assurance Conclusion

We have conducted a limited assurance engagement on the Sustainability Report of ABC Company (the Company) for the year ended December 31, 20X1 (the "Sustainability Information").

Based on the procedures we have performed and the evidence we have obtained, except for the possible effect of the matter described in the Basis for Qualified Conclusion section of our report, nothing has come to our attention that causes us to believe that the accompanying Sustainability Information is not prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

Basis for Qualified Conclusion

The Company has disclosed […].[2] We were unable to obtain sufficient appropriate evidence about […] as at December 31, 20X1 because […].[3] Consequently, we were unable to determine whether any adjustments to […] were necessary.

We conducted our limited assurance engagement in accordance with International Standard of Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements,* issued by the International Auditing and Assurance Standards Board.

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

Our responsibilities under this standard are further described in the *Practitioner's Responsibilities* section of our report.

We are independent of the Company in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) issued by the International Ethics Standards Board for Accountants, together with the ethical requirements that are relevant to our assurance engagement of the Sustainability Information in [*title/identification of requirements, name of appropriate authority and jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our firm applies International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management, including policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

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

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[1] The sub-title "Limited Assurance Report on the Sustainability Information" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

[2] Insert a description of the relevant disclosure.

[3] Provide a description of the matter giving rise to, and the reasons for, the qualified conclusion.

Emphasis of Matter[4]

We draw attention to [identify the specific disclosure in the sustainability information], which describes […]. Our conclusion is not modified in respect of this matter.

Responsibilities for the Sustainability Information

Management of the Company is responsible for:

- The preparation of the Sustainability Information in accordance with XYZ Law of Jurisdiction X.
- Designing, implementing and maintaining such internal control that management determines is necessary to enable the preparation of the Sustainability Information, in accordance with XYZ Law of Jurisdiction X, that is free from material misstatement, whether due to fraud or error.

Inherent Limitations in Preparing the Sustainability Information[5]

As discussed in *[identify the specific disclosure in the sustainability information]*, *[provide a specific description of any significant inherent limitations associated with the measurement or evaluation of the sustainability matters against the applicable criteria]*.

Practitioner's Responsibilities

Our objectives are to plan and perform the assurance engagement to obtain limited assurance about whether the sustainability information is free from material misstatement, whether due to fraud or error, and to issue a limited assurance report that includes our conclusion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence decisions of users taken on the basis of the Sustainability Information.

As part of a limited assurance engagement in accordance with ISSA 5000, we exercise professional judgment and maintain professional skepticism throughout the engagement. We also:

- Perform risk assessment procedures, including obtaining an understanding of internal control relevant to the engagement, to identify and assess the risks of material misstatements, whether due to fraud or error, at the disclosure level but not for the purpose of providing a conclusion on the effectiveness of the entity's internal control.[6]
- Design and perform procedures responsive to assessed risks of material misstatement at the disclosures level. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Summary of the Work Performed

A limited assurance engagement involves performing procedures to obtain evidence about the Sustainability Information. The nature, timing and extent of procedures selected depend on professional judgment, including the assessed risks of material misstatement at the disclosures level, whether due to fraud or error.

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[4] Include if the practitioner considers it necessary in the engagement circumstances – see paragraph 179.

[5] Include paragraph if relevant to the engagement circumstances – see paragraph 170(g).

[6] Remove "but not for the purpose of providing a conclusion on the effectiveness of the entity's internal control" if the limited assurance engagement includes a conclusion on the effectiveness of internal control.

In conducting our limited assurance engagement, we:

[*Insert a summary of the nature and extent of procedures performed that, in the practitioner's judgment, provides additional information that may be relevant to the users' understanding of the work performed to support the practitioner's conclusion and the level of assurance obtained.*][7]

- […]

[*Signature in the name of the assurance firm, the personal name of the assurance practitioner, or both, as appropriate for the particular jurisdiction*]

[*Practitioner's address*]

[*Date of the limited assurance report*]

[7] The procedures are to be summarized but not to the extent that they are ambiguous, nor described in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is important that the description of the procedures does not give the impression that those procedures were agreed upon by the assurance practitioner with management, and in most cases will not detail the entire work plan.

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

5 September 2016

External Reporting Board Policy for dealing with audit reports received under the Companies Act 1993 and the Financial Markets Conduct Act 2013

Purpose of the Policy

1. The Companies Act 1993 and the Financial Markets Conduct Act 2013 both require an auditor to send a copy of the audit report, and a copy of the financial statements or group financial statements, to the External Reporting Board (XRB), and other specified parties, if the financial reporting requirements of the respective Acts have not been complied with. However, the two Acts are silent on the purpose of the provisions and on the actions, if any, that the XRB (and the other specified parties) must take when it receives the audit reports.

2. This Policy sets out the processes that the Board of the XRB and its sub-Boards, the New Zealand Accounting Standards Board (NZASB) and the New Zealand Auditing and Assurance Board (NZAuASB), will follow when audit reports are sent to the XRB by auditors in accordance with the Companies Act 1993 and the Financial Markets Conduct Act 2013. The Policy also applies when audit reports are referred to the XRB by any other party.

Policy[1]

3. Audit reports received by the XRB will be reviewed by both the NZASB and the NZAuASB.

4. The NZASB's review will be focused on modified audit opinions in relation to material misstatements in the financial statements.

5. The NZAuASB's review will be focused on modified audit opinions in relation to when the auditor has been unable to obtain sufficient audit evidence.

6. Where the reviews raise issues or trends that relate to XRB strategy, these will be referred to the XRB Board for consideration.

7. Reviews by the NZASB and the NZAuASB will consider implications for the relevant standards by ensuring that the modified audit opinions do not raise any issue about the appropriateness, applicability, clarity and/or completeness of the relevant standards.

8. No action needs to be taken by the XRB, the NZASB or the NZAuASB if the modification of the audit opinion results from non-compliance by an entity of an otherwise appropriate standard (that is, a standard that is applicable, clear, complete and has

[1] The Background and Basis for the Policy is set out in Appendix 1.

appropriate accompanying guidance). Such non-compliance is a matter for the appropriate regulator to deal with.

9. Where the modification of the audit opinion has implications for standards, the NZASB and the NZAuASB will consider their respective standards' convergence and/or harmonisation policies. Matters raised may need to be addressed through, or in cooperation, relevant international standards Boards rather than unilaterally, or, where appropriate, through the provision of additional New Zealand guidance.

10. The actions that may be taken by the NZASB and/or the NZAuASB where the modified audit opinions have implications for any XRB standards include, for example:

    a. amend a domestic standard;
    b. raise an issue with the relevant international standards board;
    c. issue guidance; and/or
    d. re-examine the initial cost-benefit analysis undertaken when the relevant standard was developed.

11. Reviews by the XRB Board (when necessary) will consider the implications for the XRB strategy to ensure that the multi-standards, multi-tier system remains appropriate. The actions that the XRB Board may take where the modified audit opinions have implications for XRB strategy and/or the standards frameworks include, for example:

    a. Review the XRB strategy and/or standards frameworks;

    b. Refer a matter an appropriate party for their further action (for example, the regulators and/or policy makers);

    c. Refer a matter to the appropriate professional body after consultation with the regulators (for example in the rare and unusual circumstances where an audit qualification was considered to be incorrect);

    d. Engage with or liaise with policy makers and/or regulators;

    e. Engage with relevant organisations or industries directly and after consultation with the regulators, to determine the cause of the non-compliance, before taking any further action (for example, where the modified audit opinions indicate a trend of persistent non-compliance by a particular industry or with a particular standard); and/or

    f. Engage with auditors on their duties under the Companies Act 1993 and the Financial Markets Conduct Act 2013 to send audit reports with modified audit opinions to the XRB.

12. In each instance before the XRB Board takes any action, it would, where necessary, liaise with the regulators and/or policy makers.

Review of this Policy

13. This Policy will be reviewed every three years to ensure that it is still appropriate.

Appendix 1: Background and Basis for the Policy

Legislative provisions

1. The Companies Act 1993 and the Financial Markets Conduct Act 2013 both require an auditor to send a copy of the audit report, and a copy of the financial statements or group financial statements, to the XRB (and other specified parties) if the financial reporting requirements of the respective Acts have not been complied with. However, the two Acts are silent on the purpose of the provisions and on the actions, if any, that the XRB (and the other specified parties) must take when it receives the audit reports.

Companies Act 1993

2. Part 11 of the Companies Act 1993 specifies, among other matters, the requirements for a company's financial reporting and audit of its financial statements. It specifies the companies that must prepare financial statements, and that those financial statements must comply with generally accepted accounting practice (GAAP)[2]. Part 11 also specifies whose financial statements must be subject to audit and that the audit must be carried out in accordance with applicable auditing and assurance standards[3]. GAAP, applicable financial reporting standards and applicable auditing and assurance standards are defined in the Companies Act 1993 by reference to the Financial Reporting Act 2013. GAAP, applicable financial reporting standards and applicable auditing and assurance standards in the Financial Reporting Act 2013 refer to standards issued by the XRB[4].

3. Within Part 11, section 207C of the Companies Act 1993 provides that the auditor's report of a company must be sent to the Registrar of Companies and the XRB if the requirements of the Companies Act 1993 have not been complied with:

> "*If the auditor's report indicates that the requirements of this Act have not been complied with, the auditor must, within 7 working days after signing the report, send a copy of the report and a copy of the financial statements or group financial statements to which it relates to the Registrar and the External Reporting Board*".

4. In the context of the requirements of Part 11 of the Companies Act 1993 about audits of a company's financial statements, the reference to non-compliance with "*the requirements of this Act*" in section 207C is read to mean non-compliance with applicable financial reporting standards and applicable auditing and assurance standards.

Financial Markets Conduct Act 2013

5. Part 7 of the Financial Markets Conduct Act 2013 sets out the financial reporting requirements of an "FMC reporting entity"[5], including the requirements for the

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[2] Sections 200 – 202 of the Companies Act 1993.
[3] Sections 206 – 207A of the Companies Act 1993.
[4] Section 5 of the Financial Reporting Act 2013.
[5] The meaning of an "FMC reporting entity" is set out in section 451 of the Financial Markets Conduct Act 2013.

preparation[6] and audit of the financial statements[7]. Financial statements of an FMC reporting entity must comply with GAAP[8] and the audit of those financial statements must comply with applicable auditing and assurance standards[9].

6. Similar to the Companies Act 1993, GAAP, applicable financial reporting standards and applicable auditing and assurance standards are defined in the Act by reference to the Financial Reporting Act 2013 (and hence refer to standards issued by the XRB).

7. Within Subpart 3 *Preparation, audit, and lodgement of financial statements* of Part 7 *Financial reporting* of the Financial Markets Conduct Act 2013, section 461G on the auditor's report states:

> *"(1) The auditor's report on the financial statements or group financial statements that are required to be audited under this subpart must comply with the requirements of all applicable auditing and assurance standards.*
>
> *(2) If the auditor's report indicates that the requirements of this Part have not been complied with, the auditor must, within 7 working days after signing the report, send a copy of the report, and a copy of the financial statements or group financial statements to which it relates, to—*
>
> *(a) the FMA; and*
>
> *(b) the External Reporting Board; and*
>
> *(c) in the case of an issuer of debt securities or a manager of a registered scheme, the supervisor."*

8. In the context of the requirements of Subpart 3 of Part 7 of the Financial Markets Conduct Act 2013 about financial statements and audit of an FMC reporting entity's financial statements, the reference to non-compliance with "*the requirements of this Part*" in section 461G is read to mean non-compliance with the applicable financial reporting standards and applicable auditing and assurance standards.

Functions of the XRB

9. The functions of the XRB are set out in the Financial Reporting Act 2013. Section 12 of the Financial Reporting Act 2013 provides:

> *"The Board has the following functions:*
>
> *(a) to prepare and, if it thinks fit, issue financial reporting standards for the purposes of any enactment that requires—*
>
> *(i) financial statements or group financial statements to comply, or be prepared in accordance, with generally accepted accounting practice or non-GAAP standards; or*
>
> *(ii) a statement, report, or other information to comply, or be prepared in accordance, with financial reporting standards:*
>
> *(b) to prepare and, if it thinks fit, issue auditing and assurance standards for—*

[6] Sections 460 – 461 of the Financial Markets Conduct Act 2013.

[7] Section 461D of the Financial Markets Conduct Act 2013.

[8] Sections 460 – 461 of the Financial Markets Conduct Act 2013.

[9] Sections 461F – 461G of the Financial Markets Conduct Act 2013.

(i) the purposes of the Auditor Regulation Act 2011 or any other enactment that requires a person to comply with those standards; or

(ii) the purposes of any rules or codes of ethics of an association of accountants where those rules or codes require the association's members to comply with those standards; or

(iii) any other purpose approved by the Minister by notice in writing to the Board:

(c) to prepare and, if it thinks fit, issue authoritative notices for the purposes of the definition of generally accepted accounting practice:

(d) to develop and implement strategies for the issue of standards in order to provide a framework for the Board's overall direction in the setting of standards (including implementing a strategy for tiers of financial reporting in accordance with sections 29 to 33):

(e) to liaise with international or national organisations that perform functions that correspond with, or are similar to, those conferred on the Board:

(f) to perform and exercise the functions, duties, and powers conferred or imposed on it by or under this Act and any other enactments."

Interpretation of the legislative intent of the provisions of the Companies Act and the Financial Markets Conduct Act for the XRB

10. In determining the intent of legislation in providing for the XRB to receive the audit reports under section 207C of the Companies Act 1993 and Section 461G of the Financial Markets Conduct Act 2013, regard needs to be had to the functions (and role) of the XRB under the Financial Reporting Act 2013.

11. Under the Financial Reporting Act 2013, the key function of the XRB is the setting of accounting and auditing & assurance standards, and the development and implementation of a strategy for an accounting standards framework (XRB strategy). The standard-setting and strategic functions of the XRB are in contrast to the functions of the other specified parties. Those parties have, among other functions, regulatory powers to take enforcement action (where necessary). The functions of the XRB do not extend to the ability to take enforcement action against an entity's non-compliance with the respective Acts. Therefore, unlike the other specified parties, the XRB does not have a legislative responsibility to take any direct regulatory action or make contact with the preparers or auditors of the financial statements about any aspect of the non-compliance.

12. Any action the XRB takes in relation to receiving the audit reports should be consistent with the XRB's role and functions: the actions taken should be for the primary objective of assessing, based on the nature of the non-compliance, whether the non-compliance set out in the audit reports indicates a need to clarify and/or modify accounting standards, auditing & assurance standards and/or the XRB strategy.

What type of audit opinions are we concerned with?

13. Audit reports may contain unmodified audit opinions (unqualified opinions) or modified audit opinions (qualified opinions, adverse opinions or disclaimers of opinion).

14. In the context of the requirements of section 207C of the Companies Act 1993 and section 461G of the Financial Markets Conduct Act 2013, audit reports that are sent to the XRB would be all audit reports that contain modified audit opinions. These would be audit reports that contain audit opinions that indicate non-compliance with the financial reporting and/or audit requirements of the Companies Act 1993 or the Financial Markets Conduct Act 2013.

15. Accounting standards require financial statements to present fairly the financial position, financial performance and cash flows of an entity. There is a presumption in accounting standards that application of applicable financial reporting standards, with additional disclosures when necessary, results in financial statements that achieve such a fair presentation[10]. In auditing standards[11], the recognition of this presumption requires the financial reporting framework that is used to be a "fair presentation framework". Auditing standards acknowledge that in complying with a fair presentation framework, additional disclosures may sometimes be necessary and, in extremely rare circumstances, departures may also be necessary.

16. Auditing standards[12] set out the types of modified audit opinions and the circumstances when a modification of an audit opinion is required. An auditor is required to modify the opinion in the auditor's report when:

    a. The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or

    b. The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

17. A material misstatement of the financial statements, based on the audit evidence obtained, may arise in relation to:

    a. The appropriateness of the selected accounting policies;

    b. The application of the selected accounting policies; or

    c. The appropriateness or adequacy of disclosures in the financial statements.

18. A material misstatement of the financial statements, based on auditor's inability to obtain sufficient appropriate audit evidence (also referred to as "a limitation on the scope of the audit"), may arise in relation to:

    a. Circumstances beyond the control of the entity;

    b. Circumstances relating to the nature or timing of the auditor's work; or

    c. Limitations imposed by management.

19. The XRB's interest (and ability to take some action) is more likely to be in those modified audit opinions that indicate material misstatements in the financial statements that arise from audit evidence obtained by the auditor. As these modified

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[10] NZ IAS 1 *Presentation of financial statements* and PBE IPSAS 1 *Presentation of financial statements*.

[11] ISA(NZ) 700 *Forming an opinion and reporting on financial statements.*

[12] See ISA(NZ) 700 *Forming an opinion and reporting on financial statements*.

opinions focus on material misstatements in financial statements, the issues that arise are more likely to be related to accounting standards (than to auditing & assurance standards or the XRB strategy).

20. The XRB interest (and ability to take action) is less likely in relation to the audit reports received that cover modified opinions that arise from “a limitation on the scope of an audit”. This is because these are often more likely to arise from “practical” issues and are often less likely to arise as a direct result of applying, or not applying, XRB standards or the XRB strategy. Therefore, the XRB is less likely to need to modify accounting standards, auditing & assurance standards or the XRB strategy or take other action (for example, issuing further guidance) in response to this type of modified audit report.

21. Nevertheless, limitations imposed by management may be related to, for example, the governing body considering that an accounting standard requirement is not practicable. Similarly, while auditors not complying with auditing & assurance standards falls, prima facie, within the role of the regulator to take action (rather than within the role of the XRB), such non-compliance may indicate that further guidance is required.

22. As such, for the purpose of this policy, all modified audit opinions will be reviewed to determine if any XRB action is required.

What entities and standards are involved?

23. The Companies Act 1993 covers all companies incorporated under that Act. These may be for-profit companies or public benefit entities (PBEs).

24. The Financial Markets Conduct Act 2013 covers FMC reporting entities. These may be entities under any organisational structure (companies, credit unions, building society etc).

25. Entities under both Acts may be in:

    a. For-profit Tier 1 and Tier 2[13]; or
    b. PBE Tier 1, Tier 2 or Tier 3[14].

26. Therefore, the modified audit opinions could potentially affect all the accounting standards (except the Tier 4 standards) and all auditing & assurance standards issued by the XRB.

[13] A Tier 2 for-profit entity that is not an FMC reporting entity may opt out of the audit requirements.

[14] A Tier 4 PBE is not required to have an audit. A Tier 3 PBE with expenses of less than $1 million is also not required to have an audit.