

NZAuASB Board Meeting - JUNE 2025
Supplementary Pack

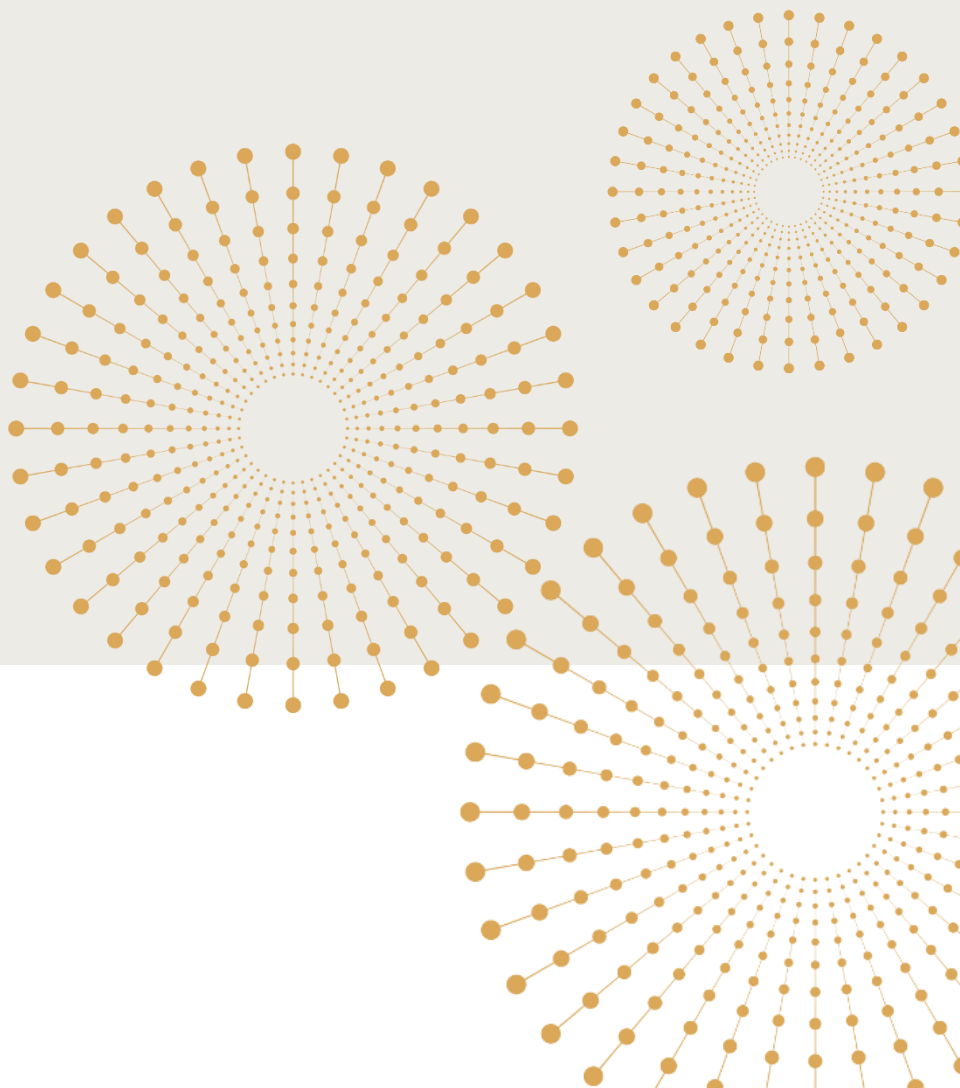
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International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities

| ISA (NZ) for LCE

Applicable date: Refer page 6



June 2025



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 2019¹.

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 15 December 2025.

¹ The standard was published on [\[TBC - Date 19 June 2025\]](#)

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	Application date
International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities	TBC	Periods beginning on or after 15 December 2025, refer page 6

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 3² 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 statements³ 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

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*. (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.
- (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, illustrative engagement letters and 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:

- (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.

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. 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;
 - (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;
 - (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 component⁵ 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.

<p>Business Activities, Business Model & Industry</p>	<p>The entity's business activities, business model, or the industry in which the entity operates, do not give rise to significant pervasive business risks.</p> <p>There are no specific laws or regulations that govern the business activities that add complexity (e.g., prudential requirements).</p> <p>The entity's transactions result from few lines of business or revenue streams.</p>
<p>Organisational Structure and Size</p>	<p>The organisational structure is relatively straightforward, with few reporting lines or levels and a small key management team (e.g., 5 individuals or less).</p>
<p>Ownership Structure</p>	<p>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.</p>
<p>Nature of Finance Function</p>	<p>The entity has a centralised finance function, including centralised activities related to financial reporting.</p> <p>There are few employees involved in financial reporting roles (e.g., 5 individuals or less).</p>
<p>Information Technology (IT)</p>	<p>The IT environment of the entity, including its IT applications and IT processes, is straightforward.</p> <p>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).</p> <p>Access to the software is generally limited to one or two designated individuals for the purpose of making the configurations.</p> <p>Few formalised general IT controls are needed in the entity's circumstances.</p>
<p>Application of the Financial Reporting Framework and Accounting Estimates</p>	<p>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.</p> <p>The entity's financial statements ordinarily do not include accounting estimates that involve the use of methods, models, assumptions, or data, that are complex.</p>

Additional Characteristics Relevant for Group Audits	
For group audits, the following qualitative characteristics are to be considered in addition to those above:	
Group Structure and Activities	The group has few entities or business units (e.g., 5 or less). Entities or business units within the group operate in jurisdictions with similar characteristics, for example laws or regulations and business practices.
Access to Information or People	Group management will be able to provide the engagement team with access to information and unrestricted access to persons within the group as determined necessary by the group auditor.
Consolidation Process	The group has a simple consolidation process. For example: <ul style="list-style-type: none"> • 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.

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 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. (see paragraphs 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 3⁶ and PES 4⁷, 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:

- Require the auditor to report to an appropriate authority outside the entity.
- 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:

- Information about the entity's related parties, including circumstances involving a related party with dominant influence;
- 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
- 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 visualisation, 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 1¹⁰, 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.

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 evidence¹² 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 realise 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:

- The entity's organisational structure, ownership and governance, and business model.
- The industry and other external factors affecting the entity.
- How the entity's financial performance is measured.
- The legal and regulatory framework applicable to the entity, and how the entity is complying with that framework.
- 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.
- 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:

- The selection and application of the method, the assumptions and data used; and
- 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.

[NZ 7.4.24.1. Where in-house legal counsel has the primary responsibility for litigation and claims and is in the best position to corroborate representations from management and those charged with governance, the auditor shall, in addition to the procedures required by this standard, request written representation from in-house legal counsel, seeking information similar to that sought from the entity's external legal counsel.](#)

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.*

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.

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.

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 report²⁴ 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

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 realise 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 report²⁸ 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 report²⁹ 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 reliable³⁰ 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.

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 characterised; 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 or by the Auditor-General's Auditing Standards. When the layout or wording of the auditor's report is prescribed by law or regulation or by 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 audited³⁹ 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 Statements⁴⁶

[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 [on behalf of the \[Entity\]](#) 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

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 firm⁵¹]

[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:

- The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- 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	
	<i>Material but Not Pervasive</i>	<i>Material and Pervasive</i>
<i>Financial statements are materially misstated</i>	Qualified opinion	Adverse opinion
<i>Inability to obtain sufficient appropriate audit evidence</i>	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
<p>9.5.3. Qualified opinion</p> <p>Auditor’s Report – Heading for opinion: “Qualified Opinion”</p> <p>Auditor’s Report – Heading for Basis for Opinion: “Basis for Qualified Opinion”</p>	<p>“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]”</p>	<p>“...except for the [effects or possible effects] of the matter(s) described in the Basis for Qualified Opinion section, the accompanying financial statements have been prepared, in all material respects, in accordance with [the applicable financial reporting framework]”</p>
<p>9.5.4. Adverse opinion</p> <p>Auditor’s Report – Heading for opinion: “Adverse Opinion”</p>	<p>“...the accompanying financial statements do not [present fairly /give a true and fair view of] [...] in accordance with [the applicable financial reporting framework]”</p>	<p>“...the accompanying financial statements have not been prepared, in all material respects, in accordance with [the</p>

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
<i>Opening Balances</i>				
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.	✓	✓	✓
<i>Non-Compliance with Laws and Regulations</i>				
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
<i>External Confirmations</i>				
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.	✓		✓
<i>Inventory</i>				
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.	✓		✓
<i>Litigation and Claims</i>				
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.	✓		✓
<i>Going Concern</i>				
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
<p>9.5.18. Adequate disclosures are not made about a material uncertainty in the financial statements.</p> <p>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."</p>	<p>7.4.4.</p> <p>8.5.8.</p>	<p>✓</p>	<p>✓</p>	
<p>9.5.20. [Amended by the NZAuASB]</p> <p>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.</p>	<p>7.4.2.</p>	<p>✓</p>		<p>✓</p>
<i>Subsequent Events</i>				
<p>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.</p>	<p>8.4.6.</p>	<p>✓</p>	<p>✓</p>	<p>✓</p>
<i>Written Representations</i>				
<p>9.5.22. The auditor concludes that the written representations required by this standard are not reliable.</p>	<p>8.6.5.</p>	<p>✓</p>		<p>✓</p>

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.			✓
<i>Corresponding Figures</i>				
<p>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.</p> <p>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.</p>	9.7.6.	✓	✓	✓
<i>Other Items</i>				

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.
- (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			
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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	<ul style="list-style-type: none"> (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: <ul style="list-style-type: none"> (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, unrealised 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 statements⁵⁴.

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 audit⁵⁵. The requirements and guidance in this Part refer to, or expand on, the application of other Parts of the ISA (NZ) for LCE⁵⁶ to the audit of service performance information.

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 fairly⁵⁷, 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~~ is appropriate and meaningful in accordance with the applicable financial reporting framework: - see Part 11.5.*

- ~~• 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.*

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

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, [for example including Reporting Requirements for Tier 3 Not-for-Profit Entities, Reporting Requirements for Tier 3 Public Sector Entities, and 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 "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.

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.

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 thereof on the auditor's risk assessment, response to assessed risks of material misstatement, and audit opinion if omissions (including those for which the entity has provided reasons or explanations) result in the auditor concluding that any aspect of the service performance information is not appropriate and meaningful. This is particularly relevant since entities will be at varying stages of maturity in respect of preparing 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 the~~ service performance information ~~that~~ 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 may also~~ 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 thereof on the auditor's risk assessment, response to assessed risks of material misstatement, and audit opinion if such omissions (including those for which the entity has provided reasons or explanations) result in the auditor concluding that any aspect of the service performance information is not appropriate and meaningful. 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 system of internal control ~~environment relevant to~~ over 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 is attributable attributes service performance to the entity. That is, does the service performance reported by the entity include only service performance that the entity has evidence to support its involvement with either directly or in conjunction with other entities with common goals.~~

~~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.~~

11.6.2. The auditor shall:

- (ba) Consider materiality for qualitative service performance information; and
- (eb) Determine materiality for quantitative service performance information.

~~11.6.3. The concept of materiality is applied by the auditor, in both planning and performing the audit, and to assess whether~~auditor shall apply materiality 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 performance measures and/or descriptions, measurement bases or evaluation methods ~~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.~~

In considering or determining the materiality for service performance information, the auditor may firstly ~~consider~~ identify 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 in part 11.4. 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~~materiality may provide a basis for:

- ~~•~~ *Determining the nature, timing and extent of procedures to identify and assess risks of material misstatement;*
- ~~•~~ *Determining the auditor's tolerance for misstatement in relation to material service performance measures and/or descriptions;*
- ~~•~~ *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 may involve the auditor actively reflect upon factors that may lead to potential material misstatements. Examples of factors that may be relevant to the 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 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 may be 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.

- 11.6.243. 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:

- The identification and assessment of risks of material misstatement, whether due to fraud or error, at service performance information and assertion levels; and
- 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:

- 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
- At the assertion level for performance measures, descriptions or disclosures that are appropriate and meaningful. In doing so, the auditor shall:
 - Determine the relevant assertions and the related significant performance measures, descriptions or disclosures; and
 - 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 may use 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 related 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~~The aggregation, measurement, and presentation of service performance information may affect how the auditor identifies and assesses the inherent risk. the risk assessment is conducted at a meaningful level to reflect the inherent risk of the measure.

The requirements for assessing control risk are set out in paragraph 6.4.7.

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.

[Sources of information](#)

Information intended to be used as evidence may come from internal sources or external sources that may affect the availability, accessibility and understandability of the information intended to be used as evidence.

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 may determine what additional procedures are necessary to resolve the inconsistency.

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.

Sufficiency and appropriateness of audit evidence

The auditor uses professional judgement and exercises professional scepticism in evaluating the sufficiency and appropriateness of audit evidence.

Factors that affect the sufficiency and appropriateness of audit evidence, include the following:

- One factor that may affect the sufficiency or appropriateness of evidence, is whether the source of the information used to prepare the disclosures is accessible. There may be limitations on management's ability to obtain information from entities outside of the reporting entity's operational control. For example, if the service performance information reported includes information from entities outside of the entity's operational control or there is an absence of direct contractual arrangements, there may be limitations on access to such information or to the work of another auditor that may have provided an assurance report 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.
- Other circumstances, such as when evidence that could reasonably be expected to exist is not available because of factors such as the nature of the relationship between the

appropriate party(ies) affecting the auditor's ability to access records, documentation, and other information the practitioner may require as evidence to complete the engagement.

The auditor may be unable to obtain sufficient appropriate audit evidence if the auditor 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 audit evidence through alternative procedures. The auditor's inability to obtain sufficient appropriate evidence may require 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.

Attribution of service performance information

~~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. In some instances, multiple entities may contribute to an element/aspect of service performance, making it difficult to attribute performance measures and/or descriptions to the entity. The auditor's understanding of the relevant aspects of the entity and the service performance information from part 11.4., including understanding management's process for selecting service performance information and management's process for obtaining the underlying data, may assist the auditor in considering the attribution of service performance information.~~

The auditor may also consider:

- whether there is a connection between the entity's activities or services and the performance measure and/or description.
- whether the performance measure and/or description reflects the extent of the entity's contribution towards the element/aspect of service performance.
- what has been disclosed by the other entities in relation to the performance measure and/or description.
- the sources of information and the factors that affect the sufficiency and appropriateness of audit evidence.

~~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 may require 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 framework⁵⁸.

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;

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.

- (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.

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 the matters in paragraph NZ9.4.1. are applicable.

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]⁵⁹

Opinion

We have audited⁶⁰ 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

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.

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 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, on behalf of the [Entity], 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 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].

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- ⁶⁴ When the auditor disclaims an opinion on the [financial report/ performance report], this statement is not included in the auditor's report.
- 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 ..."
- 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.

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 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 firm⁷¹]

[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”.

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.

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.

11.16. 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 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 overall responses to the assessed risks of material misstatement at the service performance information level;
- (f) The linkage between the procedures performed and the assessed risks at the assertion level;
- (g) The results of the audit procedures, including the conclusions where these are not otherwise clear;
- (h) All misstatements accumulated during the audit and whether they have been corrected; and
- (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 partner⁷² 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.

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 partner⁷³—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.

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 engagements⁷⁴).

⁷⁴ [NZ] As defined by XRB Au 1 *Application of Auditing and Assurance Standards (Legislative Update)*.

Public Sector Considerations

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.

[**\[NZ\] Significant performance measures, descriptions or disclosures \(in the context of Part 11\)—Performance measures, descriptions or disclosures 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]

You⁷⁶ 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]

You⁸¹ 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)

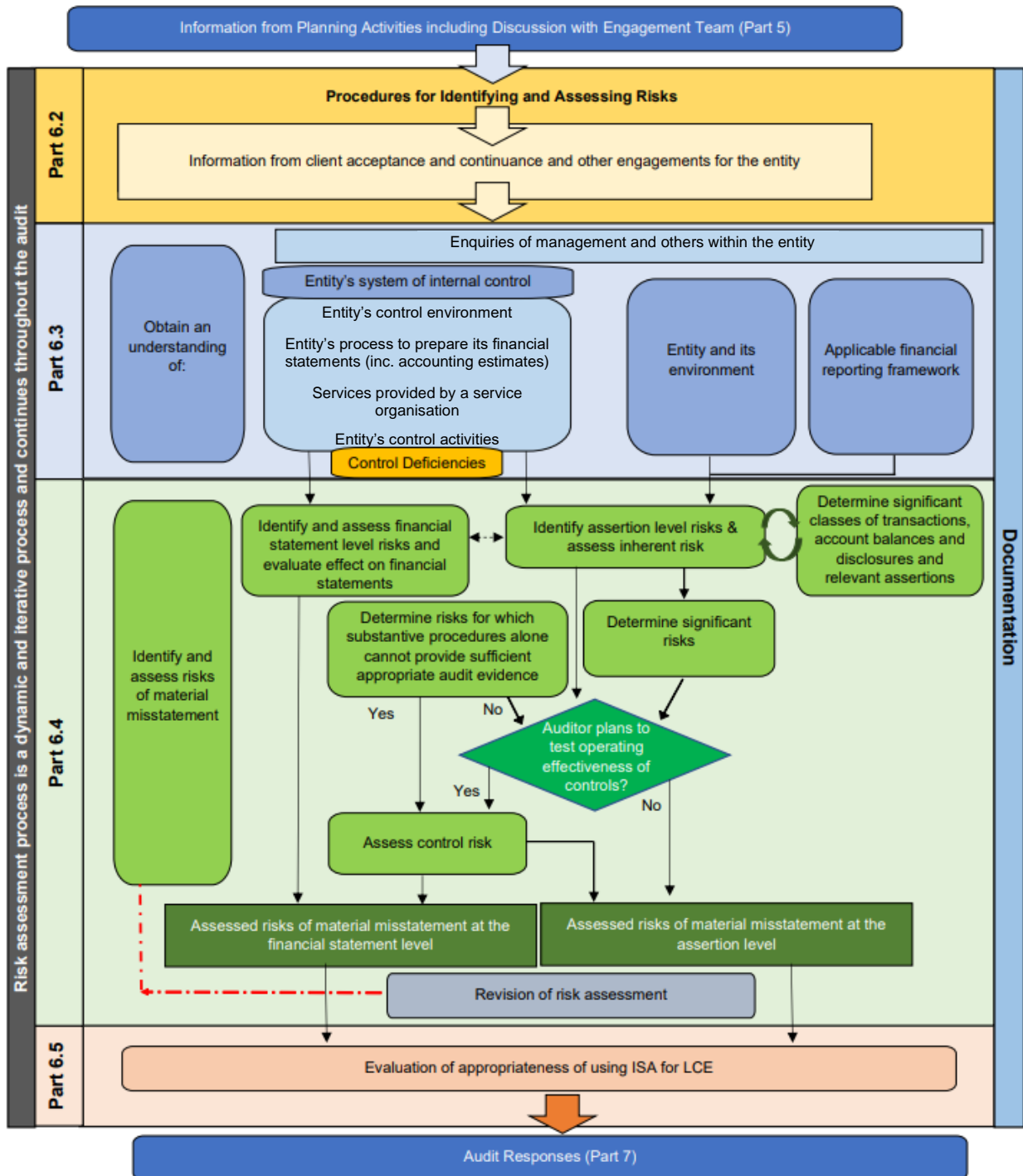
.....

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)

- 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.
- 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)

An auditor of an LCE may use the following assertions in considering the different types of potential misstatements that may occur in the service performance information. The assertions 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)
.....
Name and Title

(signed)
.....
Name and Title

[NZ] APPENDIX 7A**Illustrative Representation Letter including Service Performance Information⁸⁵**

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)

.....

Name and Title

(signed)

.....

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.

These conforming amendments affect the following standards:

- XRB Au1, *Application of auditing and assurance standards*
- PES 1, *International code of ethics for assurance practitioners (including international independence standards) (New Zealand)*
- PES 3, *Quality management for firms that perform audits or reviews of financial statements, or other assurance or related services engagements*
- PES 4, *Engagement quality reviews*
- ISAE (NZ) 3000 (Revised), *Assurance engagements other than audits or reviews of historical financial information*
- ISRE (NZ) 2400, *Engagements to review historical financial statements*

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. The auditor 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 3⁸⁶ 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), International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA (NZ) for LCE), 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**

...

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](#)

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, 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) 2400⁸⁷ 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

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*](#)

engagements conducted under the ISAs (NZ), the ISA (NZ) for LCE or ISAEs (NZ) or SAEs, 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 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 3⁸⁹ 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;
 - (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

⁹⁰ [International Standard on Auditing \(ISA \(NZ\)\) 220 \(Revised\), Quality Management for an Audit of Financial Statements, paragraph 36](#)

- (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 STANDARD 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.

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", these include:

- Paragraph A.1.(c) has been amended to specifically prohibit FMC reporting entities with a higher level of public accountability from the scope of this standard.
- Paragraph A.4. has been deleted as no quantitative thresholds are applicable when applying the ISA (NZ) for LCE.
- Various paragraphs has been amended to recognised that 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."
- Paragraph NZ 7.4.24.1. has been added to require a written representation from in-house legal counsel when the in-house legal counsel has the primary responsibility for litigation and claims and is in the best position to corroborate representations from management and those charged with governance.
- Part 11 has been added to this ISA (NZ) for LCE to enable the audit of service performance information. It does not appear in the 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).

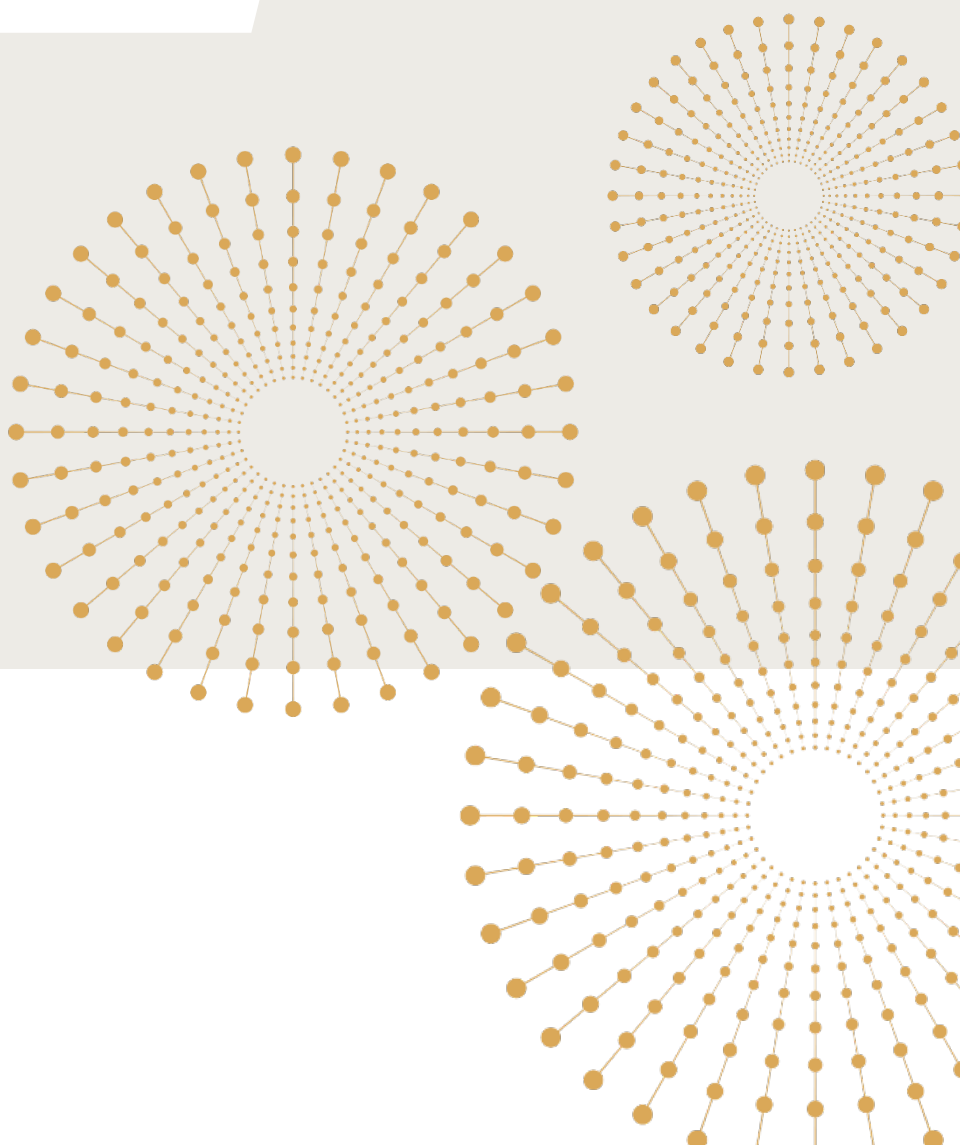
International Standard On Sustainability Assurance (New Zealand) 5000, General Requirements For Sustainability Assurance Engagements

ISSA (NZ) 5000

Exposure Draft

Submissions close x September 2025

June 2025



THE INTERNATIONAL STANDARD ON SUSTAINABILITY ASSURANCE (NEW ZEALAND) 5000,
GENERAL REQUIREMENTS FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS

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

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Commencement and application

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

0. This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

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

0.1 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**.

0.2 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 for an assurance engagement and
 - (ii) discloses in the assurance report for that accounting period that this standard has been applied for that period.

mandatory date means 15 December 2026.

¹ The standard was published on [Date]

History of amendments

Table of pronouncements – The International Standard on Sustainability Assurance (New Zealand) 5000, General Requirements For Sustainability Assurance Engagements

This table lists the pronouncements establishing and amending the ISSA (NZ) 5000.

<u>Pronouncements</u>	<u>Date approved</u>	<u>Application date</u>
<u>The International Standard on Sustainability Assurance (New Zealand) 5000, General Requirements For Sustainability Assurance Engagements</u>	<u>TBC</u>	<u>Periods beginning on or after 15 December 2026, refer para 15</u>

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~~labour 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, A21–A22, A43, 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, A197)
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 ~~Professional and Ethical Standard International Standard 1 Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) 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)
 - (b) The practitioner who is performing the engagement is a member of a firm that is subject to ~~ISQM~~PES 13,² 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~~PES 13. (Ref: Para. A8–A11)

² ~~International Standard on Quality Management (ISQM) 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~~¹, ~~Quality Management for Firms That Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements~~

7. Quality management within firms that perform assurance engagements, and compliance with ethical principles, including independence requirements, are widely recognised 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 recognise that this ISSA includes requirements that reflect the premises described in paragraph 6. (Ref: Para. A5–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)

NZ8A The practitioner shall apply New Zealand Standard on Assurance Engagements 1³ when conducting an assurance engagement for the disclosures within the climate statements relating to Greenhouse Gas (GHG) emissions required by the Financial Markets Conduct Act 2013 (the Act) to be the subject of an assurance engagement.

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)*⁴

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.

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

³ New Zealand Statement on Assurance Engagements (NZ SAE) 1, Assurance Engagements over Greenhouse Gas Emissions Disclosures

⁴ International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

and circumstances of the engagement.

Effective Date

15. ~~[Deleted by NZAuASB, refer to Commencement and Application section on page xx] 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	<p>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.</p> <p>For purposes of the ISSAs:</p> <ul style="list-style-type: none"> (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

	<p>on the sustainability assurance engagement. Such individuals are also not practitioner's experts.</p> <p>(c) References to using the work of another practitioner include, when applicable, work performed by individuals from that other firm.</p>
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. A16R)
Assurance engagement	<p>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:</p> <p>(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</p> <p>(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<u>judgement</u>, 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.</p>
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. A17)
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. A18–A19)
Criteria	<p>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. A20, A195)</p> <p>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. A528–A529)</p> <ul style="list-style-type: none"> (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. <p>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.</p>
Disclosure(s)	Sustainability information about an aspect of a topic. (Ref: Para. A21–A22)
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. A23–A24)
Engagement risk	The risk that the practitioner expresses an inappropriate conclusion when the sustainability information is materially misstated. (Ref: Para. A25–A27R)
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 judgment 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 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. A28–A29)
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. A30)
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. A31)
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. A32–A33)
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. A34)
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. A35)
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. A36–A38)
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. A417, A473, A479)
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: <ul style="list-style-type: none"> (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. A39)
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 <u>judgement</u>	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 <u>scepticism</u>	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 <u>PES 1</u> 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 <u>PES 1</u> 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. A40–A41)
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. A42)
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. A43) For purposes of the ISSAs: (a) Sustainability information results from measuring or evaluating sustainability matters against the criteria.

	<p>(b) Sustainability information that is the subject of the assurance engagement is the equivalent of “subject matter information” in other IAASB assurance standards.</p> <p>(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.</p> <p>(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. A44)</p>
Sustainability matters	<p>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.</p> <p>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. A45–A46)</p>
System of internal control	<p>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.</p> <p>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.</p>
Those charged with governance	<p>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.</p>
Uncorrected misstatements	<p>Misstatements that the practitioner has accumulated during the assurance engagement and that have not been corrected.</p>

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. (Ref: Para. A47)
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

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. (Ref: Para. A55)
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. (Ref: Para. A56)

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 69.

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 76); 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 85).
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~~PES 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~~PES 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 ~~judgment~~judgements 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~~PES 1 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~~PES 1 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 ~~inquiry~~enquiries 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~~Scepticism and Professional ~~Judgment~~Judgement

- 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~~scepticism, 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~~judgement 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, A173)
- (a) Significant matters;
 - (b) Significant ~~judgment~~judgements, 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~~judgement, 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(c) and determination in accordance with paragraph 50(d), 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, A291)
- (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 119R or 120L, 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(d), 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 practitioner's 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-A140)
 - (a) Evaluate whether the expert has the necessary competence, capabilities and objectivity for the practitioner's purposes; (Ref: Para. A141-A145)
 - (b) When evaluating the objectivity of a practitioner's external expert, ~~inquire~~enquire regarding interests and relationships that may create a threat to that expert's objectivity; (Ref: Para. A145-A147)
 - (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. A148-A149)
 - (d) Agree with the expert, in writing when appropriate, on:
 - (i) The nature, scope and objectives of that expert's work; and (Ref: Para. A149-A150)
 - (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. A138-A139)
- 57. The practitioner shall evaluate the adequacy of the practitioner's expert's work for the practitioner's purposes, including: (Ref: Para. A137; A151)
 - (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 organ~~iz~~isational 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~~judgement, require consultation.

Engagement Quality Review

- 62. For those engagements for which an engagement quality review is required in accordance with ~~ISQM~~ISQM 1 or the firm's policies or procedures, the engagement leader shall discuss significant matters and significant ~~judgment~~judgements 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~~scepticism 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 111–112.
- 67. 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–A165, A434)
 - (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

68. 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~~judgement, merit the attention of management or those charged with governance, as appropriate. (Ref: Para. A166–A170)

Documentation

Overarching Documentation Requirements

Form, Content and Extent of Engagement Documentation

69. 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. A171–A173)
- (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 ~~judgment~~judgements made in reaching those conclusions. (Ref: Para. A174–A176)
70. In documenting the nature, timing and extent of procedures performed, the practitioner shall record: (Ref: Para. A177–A178)
- (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.
71. 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. A179)

Assembly of the Final Engagement File

72. 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. A180–A182)
73. In circumstances other than those envisaged in paragraph 212, 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

74. The practitioner shall include in the engagement documentation: (Ref: Para. A183)
- (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

75. The practitioner shall obtain a preliminary knowledge of the engagement circumstances, including: (Ref: Para. A184)
- (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. A185)
76. 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. A184, A186–A187)
- (a) Consider whether the entity has a process to identify sustainability information to be reported; (Ref: Para. A187)
 - (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. A186(a), A188–A191)
 - (c) Evaluate whether the engagement exhibits all of the characteristics in paragraphs 77–80.

Appropriate Sustainability Matters

77. 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. A192–A193)

Suitability and Availability of Criteria

78. 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. A194)
- (b) Identify the sources of the criteria, including whether they are framework criteria, entity–developed criteria or a combination of both; (Ref: Para. A195–A198, A331)
 - (c) Evaluate whether the criteria exhibit the following characteristics: (Ref: Para. A199–A201, A332–A335)
 - (i) Relevance; (Ref: Para. A336–A337)
 - (ii) Completeness; (Ref: Para. A338)
 - (iii) Reliability; (Ref: Para. A339)
 - (iv) Neutrality; and (Ref: Para. A340–A341)
 - (v) Understandability; and (Ref: Para. A342)
 - (d) Evaluate whether and how the criteria will be made available to the intended users. (Ref: Para. A202)

Evidence to Support the Practitioner’s Conclusion and Form of Conclusion

79. 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. A203–A206L)
 - (b) The practitioner’s conclusion, in the form appropriate for the engagement, is to be contained in a written report.

Rational Purpose

80. The practitioner shall determine whether the engagement exhibits a rational purpose. In doing so, the practitioner shall determine whether: (Ref: Para. A207–A208)
- (a) In the case of a limited assurance engagement, the practitioner expects to be able to obtain a meaningful level of assurance; (Ref: Para. A209L–A211L)
 - (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. A212–A217)

Deciding Whether to Accept or Continue the Assurance Engagement

81. 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

82. 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. A218)
- (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.
83. 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. A218)

Assurance Report Prescribed by Law or Regulation

84. 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

85. 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. A219–A222)
- (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~~[ISSA \(NZ\) 5000](#) *General Requirements for Sustainability Assurance Engagements*.
 - (b) The responsibilities of the practitioner; (Ref: Para. A221)
 - (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 the 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 it 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
 - (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.
86. 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

87. 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. A223–A224)
- (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.
88. 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

89. For the purpose of obtaining sufficient appropriate evidence, the practitioner shall design and perform procedures: (Ref: Para. A225–A226)
- (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. A227–A228)

- (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. A229–A244)

Information Intended to be Used as Evidence

- 90. 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. A245–A263)
- 91. 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: Para. A264–A265)
 - (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

- 92. 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 90, the practitioner shall, to the extent necessary, having regard to the significance of that expert’s work for the practitioner’s purposes: (Ref: Para. A266)
 - (a) Evaluate the competence, capabilities and objectivity of that expert; (Ref: Para. A267–A268)
 - (b) Obtain an understanding of the work performed by that expert; (Ref: Para. A269)
 - (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. A270–A271)
 - (d) Evaluate the appropriateness of the work of that expert as evidence. (Ref: Para. A272)

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

- 93. 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. A273–A275)
- 94. If the practitioner has doubts about the relevance or reliability of information intended to be used as evidence, the practitioner shall: (Ref: Para. A276)
 - (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

- 95. 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. A277–A287)

96. For a group sustainability assurance engagement, in developing the overall strategy and engagement plan in accordance with paragraph 95, the practitioner shall determine: (Ref: Para. A284–A291)
- (a) The sustainability information on which assurance work will be performed and the source of that information; (Ref: Para. A288)
 - (b) The resources needed to perform the engagement, including component practitioner(s); and (Ref: Para. A108, A289–A290)
 - (c) Whether to obtain evidence from the work performed by another practitioner(s). (Ref: Para. A291)
97. 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 105.

Materiality

98. 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. A292–A299)
- (a) Consider materiality for qualitative disclosures; and (Ref: Para. A300)
 - (b) Determine materiality for quantitative disclosures. (Ref: Para. A301–A305)
99. 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 98. (Ref: Para. A306, A337)
100. For quantitative disclosures, the practitioner shall determine performance materiality. (Ref: Para. A307–A311)

Revision of Materiality as the Engagement Progresses

101. 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. A312)

Documentation

102. 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 98(a);
 - (b) The basis for the determination of materiality for quantitative disclosures, in accordance with paragraph 98(b); and
 - (c) The basis for the practitioner’s determination of performance materiality in accordance with paragraph 100.

Risk Assessment Procedures

Designing and Performing Risk Assessment Procedures

Limited Assurance	Reasonable Assurance
<p>103L. The practitioner shall design and perform risk assessment procedures sufficient to: (Ref: Para. A313–A318, A416L)</p> <ul style="list-style-type: none"> (a) Identify and assess risks of material misstatement, whether due to fraud or error, at the disclosure level; and (b) Design and perform further procedures. 	<p>103R. The practitioner shall design and perform risk assessment procedures sufficient to: (Ref: Para. A313–A318, A415R)</p> <ul style="list-style-type: none"> (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.

104. When designing and performing risk assessment procedures in accordance with paragraphs 103L and 103R, 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. A319)
105. 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. A320–A321)

Understanding the Sustainability Matters and the Sustainability Information

106. 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. A322–A325)

Determining the Suitability of the Applicable Criteria

107. The practitioner shall determine whether the applicable criteria are suitable for the engagement circumstances, including that they exhibit the characteristics in paragraph 78. (Ref: Para. A199–A201, A326–A342)

Understanding the Entity’s Reporting Policies

108. The practitioner shall obtain an understanding of the entity’s reporting policies and the reason for any changes thereto. (Ref: Para. A2, A197, A343)
109. The practitioner shall evaluate whether the entity’s reporting policies are appropriate and consistent with: (Ref: Para. A2, A343–A344)
- (a) The applicable criteria; and
 - (b) Criteria used in the relevant industry.

Understanding the Entity and Its Environment

110. The practitioner shall obtain an understanding of the entity and its environment, including:
- The nature of the entity's operations, legal and organizational structure, ownership and governance, and business model; (Ref: Para. A345–A346)
 - The reporting boundary and activities within the reporting boundary; and (Ref: Para. A347)
 - Goals, targets, or strategic objectives related to sustainability matters and measures used to assess the entity's performance or determine management compensation. (Ref: Para. A348)

Understanding the Legal and Regulatory Framework

111. The practitioner shall obtain an understanding of: (Ref: Para. A349–A351)
- 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
 - How the entity is complying with that framework.

~~Inquiry~~Enquiries and Discussion with Appropriate Parties

112. The practitioner shall make ~~inquiry~~enquiries of appropriate parties and, when appropriate, others within the entity regarding whether: (Ref: Para. A352–A353)
- They have knowledge of any fraud or suspected fraud or identified or suspected non-compliance with laws and regulations affecting the sustainability information; and
 - The entity has an internal audit function and, if so, make further ~~inquiry~~enquiries 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
113L. The practitioner shall obtain an understanding, through inquiry enquiry, 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 114L, 115L, 116L, 117 and 120L. (Ref: Para. A354–A359)	113R. The practitioner shall obtain an understanding, through inquiry enquiry 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 114R, 115R, 116R, 117, and 119R. (Ref: Para. A354–A356, A358–A359)

The Control Environment

Limited Assurance	Reasonable Assurance
114L. The practitioner shall obtain an understanding of the entity's control environment relevant to the sustainability matters and the preparation	114R. The practitioner shall obtain an understanding of the entity's control environment relevant to the sustainability matters and the preparation

<p>of the sustainability information. (Ref: Para. A360, A362–A363)</p>	<p>of the sustainability information, including evaluating whether: (Ref: Para. A360–A363)</p> <ul style="list-style-type: none"> (a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior<u>behaviour</u>; (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.
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The Entity's Risk Assessment Process

Limited Assurance	Reasonable Assurance
<p>115L. 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. A364, A366, A368)</p>	<p>115R. 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. A364–A368)</p> <ul style="list-style-type: none"> (a) Understanding the entity's process for: <ul style="list-style-type: none"> (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
<p>116L. 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. A369–A370)</p>	<p>116R. The practitioner shall:</p> <ul style="list-style-type: none"> (a) Obtain an understanding of: (Ref: Para. A369–A370) <ul style="list-style-type: none"> (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 (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. A371R–A376R)

The Information System and Communication

117. 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. A377–A381)

- (a) The entity's process to identify sustainability information to be reported. (Ref: Para. A382–A384)
- (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. A385)
- (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.

118. Based on the practitioner's understanding of the information system and communication in accordance with paragraph 117, 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. A386)

Control Activities

119R. The practitioner shall obtain an understanding of control activities by identifying: (Ref: Para. A387–A392)

- (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
<p>120L. If the practitioner plans to obtain evidence by testing the operating effectiveness of controls, the practitioner shall obtain an understanding of: (Ref: Para. A387–A392, A399L)</p> <ul style="list-style-type: none"> (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). <p>by: (Ref: Para. A393–A398)</p> <ul style="list-style-type: none"> (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 inquiryenquiry of the entity's personnel. 	<p>120R. The practitioner shall obtain an understanding of each control identified in accordance with paragraph 119R(a), (c), and (d) by: (Ref: Para. A393–A398)</p> <ul style="list-style-type: none"> (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 inquiryenquiry of the entity's personnel.

Identifying Control Deficiencies

121. 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. A400–A403)

Identifying and Assessing the Risks of Material Misstatement

Limited Assurance	Reasonable Assurance
<p>122L. 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. A404–A414, A416L, A417)</p> <p>(a) Are responsive to the assessed risks of material misstatement; and</p> <p>(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.</p>	<p>122R. 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. A404–A405, A407–A408, A410–A415R, A417–A418R)</p> <p>(a) Are responsive to the assessed risks of material misstatement; and</p> <p>(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.</p>

- 123R. 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. A418R)

Evaluating the Evidence Obtained from the Risk Assessment Procedures

124. 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. A419)

Documentation

125. The practitioner shall include in the engagement documentation:
- (a) The engagement team discussion in accordance with paragraph 105, and the significant decisions reached;
 - (b) Key elements of the practitioner's understanding, ~~inquiry~~enquiries and discussion in accordance with paragraphs 106–119R;
 - (c) The evaluation of the design of identified controls, and determination of whether such controls have been implemented, in accordance with paragraph 120L, if applicable, and paragraph 120R; and
 - (d) The identified and assessed risks of material misstatement, in accordance with paragraphs 122L and 122R.

Responding to Risks of Material Misstatement

Designing and Performing Further Procedures

Limited Assurance	Reasonable Assurance
126L. 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. A284–A287, A420–A424)	126R. 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. A284–A287, A420–A424)

127. In designing and performing further procedures, the practitioner shall: (Ref: Para. A424–A427)
- (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
<p>128L. The practitioner shall design and implement overall responses to address the risks of material misstatement if the practitioner identifies: (Ref: Para. A428–A429)</p> <ul style="list-style-type: none"> (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. 	<p>128R. The practitioner shall design and implement overall responses to address the risks of material misstatement if: (Ref: Para. A428–A429)</p> <ul style="list-style-type: none"> (a) The practitioner's evaluation of the control environment indicates that: <ul style="list-style-type: none"> (i) Management, with the oversight of those charged with governance, has not created and maintained a culture of honesty and ethical behavior<u>behaviour</u>; (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
	<p>(b) The practitioner identifies fraud or suspected fraud or non-compliance or suspected non-compliance with laws and regulations; or</p> <p>(c) The practitioner identifies risks of material misstatement pervasively throughout the sustainability information.</p>

Responding to Identified or Suspected Fraud or Non-Compliance with Laws and Regulations

129. 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. A430–A431)
- (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.
130. 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. A432)
131. 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. A433–A435)

Tests of Controls

132. If the practitioner intends to obtain evidence about the operating effectiveness of controls identified in accordance with paragraphs 119R or 120L, the practitioner shall design and perform tests of controls by: (Ref: Para. A436–A437)
- (a) Performing ~~inquiry~~enquiry 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.
133. 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 134.
134. 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.

135. 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~~enquiry, combined with observation or inspection, to confirm the understanding of those specific controls, and (Ref: Para. A438–A439)
- (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.
136. 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.
137. 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.
138. If deviations from controls that the practitioner tests are detected, the practitioner shall make specific ~~inquiry~~enquiries 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

- 139R. The further procedures required by paragraph 126R 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. A407)
- 140R. 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~~judgement, are material. (Ref: Para. A440R–A441R)
- 141R. The practitioner shall consider whether external confirmation procedures are to be performed. (Ref: Para. A442–A443)
142. 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. A444–A445)
- (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
<p>143L. If designing and performing analytical procedures, the practitioner shall: (Ref: Para. A446–A447)</p> <ul style="list-style-type: none"> (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. A448L) 	<p>143R. If designing and performing analytical procedures, the practitioner shall: (Ref: Para. A446–A447)</p> <ul style="list-style-type: none"> (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.
<p>144L. 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 inquireenquiries of management about such differences. The practitioner shall consider the responses to these inquireenquiries to determine whether additional procedures are necessary in the circumstances.</p>	<p>144R. 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:</p> <ul style="list-style-type: none"> (a) InquireEnquiring of management and obtaining additional evidence relevant to management’s responses; and (b) Performing other procedures as necessary in the circumstances.

Sampling

145. If the practitioner uses sampling as a means for selecting items for testing, the practitioner shall: (Ref: Para. A449)
- (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
<p>146L. In responding to assessed risks of material misstatement relating to disclosures involving estimates or forward-looking information the practitioner shall: (Ref: Para. A450–A452, A454–A455L)</p> <p>(a) Evaluate whether:</p> <ul style="list-style-type: none"> (i) Management has appropriately applied the requirements of the applicable criteria relevant to estimates or forward-looking information; (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 (Ref: Para. A459) <p>(b) Consider whether other procedures are necessary in the circumstances.</p>	<p>146R. In responding to assessed risks of material misstatement relating to disclosures involving estimates or forward-looking information, the practitioner shall: (Ref: Para. A450–A452, A454)</p> <p>(a) Evaluate whether management has appropriately applied the requirements of the applicable criteria relevant to estimates or forward-looking information; and (Ref: Para. A453R)</p> <p>(b) Undertake one or more of the following:</p> <ul style="list-style-type: none"> (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: <ul style="list-style-type: none"> a. The method has been appropriately selected and applied, and any changes from prior periods are appropriate; (Ref: Para. A456R, A459) b. The assumptions used, including any changes from prior periods, are appropriate; and (Ref: Para. A457R, A459) c. The data, including any changes from prior periods, are appropriate; (Ref: Para. A458R, A459) (ii) Develop a point estimate or a range to evaluate management’s estimate. For this purpose, the

Limited Assurance	Reasonable Assurance
	<p>practitioner shall: (Ref: Para. A460R–A462R)</p> <ul style="list-style-type: none"> a. Evaluate whether the methods, assumptions or data used are appropriate in the context of the criteria; and b. When the practitioner develops a range: <ul style="list-style-type: none"> 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; or (iii) Obtain evidence from events occurring up to the date of the practitioner’s report.

Revising the Risk Assessment in a Reasonable Assurance Engagement

147R. 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. A463R)

Determining Whether Additional Procedures Are Necessary in a Limited Assurance Engagement

148L. 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 A464L–A467L)

- (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
<p>149L. The practitioner's procedures shall include the following procedures related to the entity's process for assembling the sustainability information: (Ref: Para. A468)</p> <p>(a) Agreeing or reconciling the sustainability information with the underlying records; and</p> <p>(b) Obtaining, through inquiry<u>enquiry</u> 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.</p>	<p>149R. The practitioner's procedures shall include the following procedures related to the entity's process for assembling the sustainability information: (Ref: Para. A468)</p> <p>(a) Agreeing or reconciling the sustainability information with the underlying records; and</p> <p>(b) Obtaining evidence about material adjustments made during the course of preparing the sustainability information.</p>
	<p>150R. In responding to the risk of management override of controls in accordance with paragraph 123R, the practitioner shall design and perform the following procedures:</p> <p>(a) Test the appropriateness of adjustments made by management in the process for assembling the sustainability information;</p> <p>(b) Make inquiry<u>enquiries</u> of individuals involved in the sustainability reporting process about their knowledge of inappropriate or unusual activity relating to adjustments to sustainability information; and</p>

Limited Assurance	Reasonable Assurance
	(c) Determine whether other procedures are needed in addition to those in paragraphs (a)–(b) above, in order to respond to the risks of management override of controls. (Ref: Para. A469R)
<p>151L. 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:</p> <ul style="list-style-type: none"> (a) Obtaining, through inquire<u>enquiry</u> 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 judgment<u>judgements</u> made in the aggregation process give rise to indicators of possible management bias. 	<p>151R. 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:</p> <ul style="list-style-type: none"> (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 judgment<u>judgements</u> made in the aggregation process give rise to indicators of possible management bias.

Documentation

152. The practitioner shall include in the engagement documentation:

- (a) The overall responses in accordance with paragraphs 128L and 128R 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 ~~judgment~~judgements 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

153. The practitioner shall accumulate misstatements identified during the engagement, other than those that are clearly trivial. (Ref: Para. A470–A476)

154. The practitioner shall: (Ref: Para. A477–A480)
- (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

155. The practitioner shall determine whether the approach to the engagement needs to be revised if: (Ref: Para. A481)
- (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

156. 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. A482)
157. 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.
158. 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. A483)

Evaluating the Effect of Uncorrected Misstatements

159. 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.
160. 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. A484–A498)

Documentation

161. 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 153 and 156); and
 - (b) The practitioner’s conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion (paragraph 160).

Evaluating the Description of Applicable Criteria

162. The practitioner shall evaluate whether the sustainability information adequately references or describes the applicable criteria and the sources of those criteria. (Ref: Para. A499–A501)

Subsequent Events

163. The practitioner shall: (Ref: Para. A502–A504L)
- (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.
164. 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. A505)

Written Representations from Management and Those Charged with Governance

165. The practitioner shall request from management and, where appropriate, those charged with governance a written representation: (Ref: Para. A506–A507)
- (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.
166. 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.
167. 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.

168. The date of the written representations shall be as near as practicable to, but not after, the date of the assurance report.
169. 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~~Re-evaluate 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.
170. 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 165(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 165(a) and (b).

Other Information

Obtaining the Other Information

171. The practitioner shall: (Ref: Para. A508–A511)
- (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

172. The practitioner shall read the other information obtained prior to the date of the assurance report and, in doing so shall: (Ref: Para. A512–A513)
- (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

173. 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.
174. 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

175. 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. A514–A515)
- (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.
176. 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. A514–A515)
- (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. A516)
 - (b) If withdrawal is possible under applicable law or regulation, withdrawing from the engagement. (Ref: Para. A517)

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

177. If, as a result of performing the procedures in paragraph 172, 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. A518)

Forming the Assurance Conclusion

Evaluating the Evidence Obtained

178. 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. A519–A522)
- (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.
179. The practitioner shall evaluate whether ~~judgment~~judgements 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.
180. If the practitioner obtains evidence that is inconsistent with other evidence, the practitioner shall: (Ref: Para. A523–A526)
- (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

181. 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 178 and 179 regarding the sufficiency and appropriateness of evidence obtained and the determination in paragraph 160 of whether uncorrected misstatements are material, individually or in the aggregate. (Ref: Para. A527)
182. When the principles of fair presentation are embodied in the applicable criteria, the evaluation required by paragraph 181 shall also include consideration of: (Ref: Para. A528–A529)
- (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.
183. 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 203.
184. 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

185. If the practitioner is unable to obtain sufficient appropriate evidence, a scope limitation exists, and the practitioner shall either: (Ref: Para. A530–A531)
- (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

186. 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 ~~judgment~~ **judgements** made and the conclusions reached are appropriate given the nature and circumstances of the engagement; and (Ref: Para. A532–A534)
 - (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

187. The practitioner shall include in the engagement documentation:

- (a) The basis for the engagement leader's determination in accordance with paragraph 186(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 180); and (Ref: Para. A535)
- (b) The basis for the engagement leader's determination in accordance with paragraph 186(d)(i) that the engagement leader's involvement has been sufficient and appropriate throughout the engagement. (Ref: Para. A536)

Preparing the Assurance Report

188. 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. A537–A538)
189. 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 paragraph, Other Matter paragraph, findings, recommendations or additional information is not intended to detract from the practitioner's conclusion. (Ref: Para. A537–A538)

Assurance Report Content

190. The assurance report shall include at a minimum the following basic elements: (Ref: Para. A539, A567–A569)
- (a) A title that clearly indicates the report is an independent practitioner's limited, reasonable or combined limited and reasonable assurance report. (Ref: Para. A540)
 - (b) An addressee. (Ref: Para. A541)
 - (c) The practitioner's conclusion in the first section of the assurance report, which: (Ref: Para. A542–A552)
 - (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. A542)
 - (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. A543–A544)

- (v) Specifies the date of, or period or periods covered by the sustainability information;
 - (vi) Expresses a conclusion, which: (Ref: Para. A545L–A547)
 - 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: A548–A551)
 - (viii) The conclusion in paragraph 190(c)(vi) shall be phrased in terms of: (Ref: Para. A545L–A547)
 - 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. A552)
- (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~~ISSA (NZ) 5000 *General Requirements for Sustainability Assurance Engagements*; (Ref: Para. A553)
 - (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 190(h));
 - (iv) States that the practitioner complies with the independence and other ethical requirements of:
 - a. ~~The IESBA Code~~PES 1 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~~PES 1 related to sustainability assurance engagements;
 - (v) 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. A554)

NZ(v)(a): includes a statement as to the existence of any relationship (other than that of practitioner) which the practitioner has with, or any interests which the practitioner has in, the entity or any of its subsidiaries.

- (vi) States that the firm of which the practitioner is a member applies:
 - a. ~~ISQMPES~~ 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 ~~ISQMPES~~ 1;
- (vii) 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
- (viii) 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 202.
- (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. A555–A556)
 - a. The preparation and, if applicable, fair presentation of the sustainability information in accordance with the applicable criteria; and (Ref: Para. A557)
 - 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 ~~fulfil~~ fulfil the responsibilities described in (f)(i), identifies those responsible for oversight. (Ref: Para. A556)
- (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. A494, A558–A560 and A579)
- (h) A section with the heading "Practitioner's Responsibilities" that states that: (Ref: Para. A555)
 - (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~~judgement and maintains professional ~~skepticism~~scepticism 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. A561–A565L)
- (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. A566)
 - (i) The practitioner has obtained the evidence on which the practitioner’s conclusion is based, including evidence that those with the recognised authority have asserted that they have taken responsibility for the sustainability information; and
 - (ii) When an engagement quality review is required in accordance with ISQMPEs 1 or the firm’s policies or procedures, the engagement quality review is complete.

Name of the Engagement Leader in the Assurance Report

191. 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. A570–A572)

Reference to a Practitioner’s Expert in the Assurance Report

192. 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, A573–A575)

Other Reporting Responsibilities

193. 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. A576–A577)
194. 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. A578)
195. If the assurance report contains a separate section that addresses other reporting responsibilities, the requirements of paragraph 190 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. A578)
196. 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 190 and 191.

Engagements Conducted in Accordance with Both ~~ISSA 5000~~ISSA (NZ) 5000 and Other Assurance Standards

197. 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 190 and 191 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
<p>198L. The practitioner shall express an unmodified limited assurance conclusion when the practitioner concludes, that, based on the procedures performed and evidence obtained, no matter(s) has come to the attention of the practitioner that causes the practitioner to believe that:</p> <ul style="list-style-type: none"> (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. 	<p>198R. The practitioner shall express an unmodified reasonable assurance opinion when the practitioner concludes that:</p> <ul style="list-style-type: none"> (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

199. If the practitioner considers it necessary to: (Ref: Para. A579–A582)

- (a) Draw intended users’ attention to a matter presented or disclosed in the sustainability information that, in the practitioner’s ~~judgment~~judgement, 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~~judgement, 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.

200. 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. A583–A584)

Other Information

201. 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 190(e), except when the practitioner disclaims a conclusion, in which case an "Other Information" section is not included. (Ref: Para. A585)

202. When the assurance report is required to include an Other Information section in accordance with paragraph 201, 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. A586)
- (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

203. The practitioner shall express a modified conclusion in the following circumstances:

- (a) When, in the practitioner's professional ~~judgment~~judgement, 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. A587, A593L–A595)
- (b) When, in the practitioner's professional ~~judgment~~judgement, the sustainability information is materially misstated. In such cases, the practitioner shall express a qualified conclusion or adverse conclusion. (Ref: Para. A588–A590, A593L–A595)

204. The practitioner shall express a qualified conclusion when, in the practitioner's professional ~~judgment~~judgement, 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. A591–A594R)
205. 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.
206. 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

207. 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. (Ref: Para. A596)
208. In determining whether the comparative information is appropriately presented, the practitioner shall evaluate whether: (Ref: Para. A597–A598)
- (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.
209. 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 207–208. (Ref: Para. A599–A600)
210. 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. A599–A600)
- (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.
211. 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. A601)
- (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

212. 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. A602)
- (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.

* * *

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 80, 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~~PES 1 regarding relevant ethical requirements for assurance engagements, and ~~ISQM PES 1–3~~ 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~~behaviour 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~~behaviour. 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~~PES 1 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~~PES 1 related to such engagements.

Quality Management (Ref: Para. 6(b), 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 PES 13.
- 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 PES 13 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 PES 13.
- A11. In accordance with ISQM PES 13, 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~~ 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
 - (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

A16R. 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 A415R.

Component

A17. 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 A35). 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

A18. 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.

A19. 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 ISSA (NZ)s.

Criteria

A20. 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)

A21. The term "disclosure(s)" is used in this ISSA (NZ) 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.

A22. 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 A285–A287).

Engagement Leader

A23. 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.

A24. The term engagement leader in this ISSA is the equivalent of “engagement partner” in [ISQM PES 13](#).

Engagement Risk

A25. 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.

A26. 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).

A27R. 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.
- The fact that much of the evidence available to the practitioner is persuasive rather than conclusive.
- The use of professional ~~judgment~~[judgement](#) 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

A28. The engagement team includes personnel, which includes any internal experts, and, if applicable, component practitioners. Another practitioner is not part of the engagement team.

A29. 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

A30. 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

A31. The legal nature of the organisation performing the assurance engagement may take many forms and may not be described as a firm.

Fraud

A32. 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.

A33. Paragraphs A323, A473 and A479 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

A34. A single legal entity organised 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

A35. 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 ISSA (NZ)s.

Intended Users

A36. 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 organisation 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.

A37. 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.

A38. 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 200 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 A584).

Partner

A39. As noted in paragraph A31, 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

A40. 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).

A41. 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

A42. 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 143L and 143R). 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

A43. 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	
<i>Environmental</i>	<ul style="list-style-type: none"> • 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
<i>Social</i>	<ul style="list-style-type: none"> • Labor practices, such as diversity and equal opportunity, training and education, and occupational health and safety

	<ul style="list-style-type: none"> • Human rights and community relations, such as local community engagement, impact assessments and development programprogrammes • Customer health and safety
<i>Governance</i>	<ul style="list-style-type: none"> • Monitoring, managing and overseeing sustainability matters and their related impacts
Aspects of Topics	
<ul style="list-style-type: none"> • 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 	

A44. 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

A45. 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.

A46. 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. 19–20)

- 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 [ISA/ISA \(NZ\)](#)s⁵ and ISREs⁶ 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 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~~ fulfil 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 [\(NZ\)](#). 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 ISSA [\(NZ\)](#)s. They do not, however, limit or reduce the responsibility of the practitioner to apply and comply with the requirements in an

⁵ ISA, *International Standards on Auditing*

⁶ ISRE, *International Standards on Related Services*

ISSA [\(NZ\)](#).

- 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 [\(NZ\)](#) 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 [\(NZ\)](#) and any other relevant ISSA [\(NZ\)](#)s are designed to enable the practitioner to achieve the objectives specified in the ISSA [\(NZ\)](#), 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~~[PES 1](#) sets out the fundamental principles of ethics that establish the standards of ~~behavior~~[behaviour](#) 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~~[behaviour](#). ~~The IESBA Code~~[PES 1](#) 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~~[PES 1](#) 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~~PES 1 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~~PES 1 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~~scepticism. The International Independence Standards in ~~the IESBA Code~~PES 1 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~~PES 1 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~~PES 1 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 PES 13, for acceptance and continuance decisions, the firm is required to make ~~judgment~~judgements 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 PES 13, or professional requirements, or requirements in law or regulation, that are at least as demanding.
 - When applicable, in accordance with ISQM PES 44, performance of engagement quality reviews in accordance with ISQM PES 24.⁷

⁷ ISQM Professional and Ethical Standard 4.2, Engagement Quality Reviews

- 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~~ behaviour.

A69. ISQM PES 1-3 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 PES 1-3 include the firm's responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews. ISQM PES 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.

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 [ISQMPEs 1-3](#) 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 [ISQMPEs 1-3](#).

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.
- 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. [ISQMPEs 1-3](#) 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/behaviours](#) 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 PES 1-3](#) 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~~judgement~~, and may involve consideration of factors such as:

- The judgment~~judgement~~ 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~~judgement~~ 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~~judgement~~.
- 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. 35–37)

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~~fulfilment~~ of relevant ethical requirements and the firm's related policies or procedures.

A85. In accordance with ISQM PES 43, 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~~Scepticism and Professional ~~Judgment~~Judgement

Professional ~~Skepticism~~Scepticism (Ref: Para. 39)

A87. Professional ~~skepticism~~scepticism 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 ~~inquire~~enquiries 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~~scepticism is necessary for the critical assessment of evidence. This includes questioning inconsistent evidence and the reliability of responses to ~~inquire~~enquiries 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~~scepticism throughout the engagement is necessary if the practitioner is, for example, to reduce the risks of:

- Overlooking unusual circumstances.
- Overgeneral~~izing~~ising 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 90 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~~scepticism.

A91. Impediments to the exercise of professional ~~skepticism~~scepticism 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~~behaviour 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~~scepticism 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~~judgement).
- 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 specializised 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~~Judgement (Ref: Para. 40)

A93. Professional ~~judgment~~judgement 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~~judgement 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 judgmentjudgement 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 skepticismscepticism.
- 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 judgmentjudgements made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement.

A94. The distinguishing feature of the professional judgmentjudgement 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 judgmentjudgements.

A95. The exercise of professional judgmentjudgement 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 judgmentjudgement can be evaluated based on whether the judgmentjudgement 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 judgmentjudgement 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 programprogrammes, 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 programprogrammes 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~~scepticism and professional ~~judgment~~judgement.
- Understanding of the firm's policies or procedures.

A99. Sustainability assurance engagements may relate to a wide range of sustainability matters that require specialised 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 96).

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 ~~judgment~~ judgements 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~~ judgement. For example, if an assurance software ~~program~~ programme 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 specialised skills or expertise in evaluating or ~~analyzing~~~~analysing~~ 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~~~~PES 1-3~~ 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~~scepticism 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 186(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~~judgements in identifying significant ~~judgment~~judgements made by the engagement team. The firm's policies or procedures may specify certain matters that are commonly expected to be significant ~~judgment~~judgements. Significant ~~judgment~~judgements may include matters related to planning and performing the engagement, as well as the conclusions reached by the engagement team.

Examples of significant ~~judgment~~judgements:

- 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–A151 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 A151.

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~~fulfilment 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 4400⁸ 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 recognised 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~~judgement and is influenced by the nature and circumstances of another practitioner's work. The sources described in paragraph A141 related to the work of a practitioner's expert may also be

⁸ International Standard on Related Services (ISRS) 4400, *Agreed-Upon Procedures Engagements*

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 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 recognised 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 practitioner's 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. Determining 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 ~~judgment~~ judgements 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 185.

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 ~~fulfil~~ fulfil 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 paragraph A140).
- 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.

A138. 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.

A139. 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.

A140. 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))

A141. 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).

A142. 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.

A143. 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 ~~program~~programme 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.

A144. ISQM PES 1-3 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))

A145. Relevant ethical requirements applicable to the practitioner when using the work of a practitioner's external expert may include provisions addressing the ~~fulfillment~~fulfilment 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.

A146. 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.

A147. When evaluating the objectivity of a practitioner's external expert, it may be relevant to:

- ~~Inquire~~Enquire 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))

A148. 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(c)–(d))

A149. 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.

A150. 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)

A151. Procedures to evaluate the adequacy of the practitioner's expert's work for the practitioner's purposes may include:

- ~~Inquir~~Enquiries 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 ~~organ~~organisational 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 ~~program~~programmes, 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 ~~skepticisms~~scepticism 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~~scepticism 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~~scepticism is particularly important when considering material misstatement due to fraud, which may include omission of information or deliberate bias. Paragraph A323 provides examples of material misstatements due to fraud in sustainability information. Paragraphs 128L, 128R and 129–131 address the practitioner's required responses to fraud or suspected fraud.

Non-Compliance with Laws and Regulations (Ref: Para. 67)

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.

A164. 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 ~~(NZ)~~, 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~~judgement 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.

A165. 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. 68)

A166. 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 A167).
- Significant difficulties encountered during the engagement (see also paragraph A168).

A167. 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.

A168. 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.

A169. 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

A170. 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. 69–71)

A171. 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 [\(NZ\)](#) 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.

A172. 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.

A173. 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.

A174. 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.

A175. 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](#).

A176. 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 judgmentjudgements (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.

A177. It is neither necessary nor practical to document every matter considered, or professional judgmentjudgement 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.

A178. 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.

A179. 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. 72)

A180. ISQMPEs 1-3 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.

A181. 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.

A182. ISQMPEs 1-3 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. 74)

A183. When dealing with circumstances that may pose risks to achieving quality on the engagement, the exercise of

professional ~~skepticism~~scepticism, 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. 75–76)

A184. 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 76. The practitioner uses professional ~~judgment~~judgement 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. 75(b))

A185. 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. 76)

A186. 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. 76(a), Appendix 2)

A187. An assurance engagement is conducted in accordance with this ISSA ~~(NZ)~~ 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 85).

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. 76(b))

A188. The three parties for an assurance engagement are:

- (a) The engaging party;
- (b) The practitioner; and
- (c) The intended users.

A189. 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. 76(b))

A190. 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.

A191. 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 173–176) will have an impact on the practitioner's acceptance of the proposed engagement.

Appropriate Sustainability Matters (Ref: Para. 77)

A192. 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.

A193. 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 ~~judgment~~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. 78, 107)

Suitable criteria for only some of the sustainability matters (Ref: Para. 78(a))

A194. 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. 78(b))

A195. 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 organisation(s) that is authorised or recognised 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.

A196. 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.

A197. Framework criteria that are embodied in law or regulation or are established by an authorised or recognised organisation 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.

A198. 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 judgements.

Characteristics of suitable criteria (Ref: Para. 78(c), 107)

A199. Suitable criteria are required for reasonably consistent measurement or evaluation of the sustainability matters within the context of professional judgement. 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.

A200. The relative importance of each characteristic of the criteria to a particular engagement is a matter of professional ~~judgment~~judgement.

A201. 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. 78(d))

A202. 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. 79(a))

A203. 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.

A204. 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.

A205. 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.

A206L. 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 148L, 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 A232).

Rational Purpose (Ref: Para. 80)

A207. 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.

A208. 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~~judgement 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. 80(a))

A209L. 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~~judgement 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.

A210L. 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~~judgement 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.

A211L. 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. 80(c))

A212. 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 78(c).

A213. If the scope of the assurance engagement includes only part of the sustainability information being reported by the entity (e.g., in reporting ~~labor~~labour 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.

A214. 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.

A215. 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.

A216. 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.

A217. 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. 82–83)

A218. If the practitioner discovers after accepting the engagement that one or more of the preconditions in paragraph 76 are not present, but continues the engagement, the assurance report may address the matter. For example:

- When, in the practitioner’s professional ~~judgment~~ judgement 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~~ judgement, the materiality and pervasiveness of the matter.

Terms of the Assurance Engagement

Agreeing the Terms of the Assurance Engagement (Ref: Para. 85)

A219. 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.

A220. 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.

A221. 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 190(h).

A222. 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. 87)

A223. 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.

A224. 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. 89)

A225. 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.

A226. The practitioner obtains evidence by designing and performing procedures, including risk assessment procedures and further procedures, to comply with this ISSA (NZ). The nature of a procedure refers to its purpose and its type. Types of procedures include ~~inquiries~~enquiries, inspection, observation, confirmation, recalculation, reperformance and analytical procedures.

Designing and Performing Procedures in a Manner that Is Not Biased (Ref: Para. 89(a))

A227. Unconscious or conscious biases may affect the engagement team's professional ~~judgment~~judgements in designing and performing procedures, which may impede the exercise of professional ~~skepticism~~scepticism. An awareness of such biases when designing and performing procedures may help to mitigate impediments to the practitioner's exercise of professional ~~skepticism~~scepticism 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).

A228. Obtaining evidence in an unbiased manner may involve obtaining information from multiple sources (see also paragraphs A255–A257).

Procedures that Are Appropriate in the Circumstances (Ref: Para. 89(b))

A229. 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 (NZ). For example, the purpose may be to obtain evidence about whether an event has occurred or whether the disclosures are complete.

A230. 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 A240–A244).
- 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, ~~judgment~~judgemental or subject to estimation uncertainty.

A231. 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 A230 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. 89(b))

A232. 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 A206L, 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.

A233. 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.

A234R. 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).

A235L. 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 A209L, 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.

A236. 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.

A237. The practitioner uses professional ~~judgment~~judgement and exercises professional ~~skepticism~~scepticism in evaluating the sufficiency and appropriateness of evidence to support the assurance conclusion.

A238. 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 A236 and A252).
- 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 A204.

A239. 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~~enquiry of management. In a reasonable assurance engagement, ~~inquiry~~enquiry alone ordinarily does not provide sufficient appropriate evidence.

Qualitative Information (Ref: Para. 89(b))

A240. 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 ~~judgment~~~~judgement~~al, not directly observable and may be susceptible to management bias. The practitioner may need to exercise significant professional ~~judgment~~~~judgement~~ in evaluating what constitutes sufficient appropriate evidence in these circumstances.

A241. 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. 89(b))

A242. 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~~~~judgement~~ 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 ~~realiz~~~~ized~~. 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.

A243. 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~~~~judgement~~ 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 179.

A244. 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. 90)

A245. 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 [\(NZ\)](#), this information is referred to as "information intended to be used as evidence."

A246. 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 A255–A257); and
- (b) The attributes of relevance and reliability of the information that are considered applicable in the circumstances (see paragraphs A258–A263).

A247. 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).

A248. Evidence from performing other procedures in accordance with this ISSA [\(NZ\)](#) 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

A249. 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.

A250. 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~~scepticism. 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.

A251. 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.

A252. As explained in paragraph A238, 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 A290 describes procedures that may be considered by the practitioner in these circumstances, including testing management's process for obtaining such information.

A253. 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 185.

A254. In some circumstances, special~~ized~~ised 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

A255. 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 recognise 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 A289–A290 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 organisation.
- Another practitioner, which may include a practitioner engaged by an entity to provide a one-to-many report (see paragraph A291).

A256. 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.

A257. 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

A258. 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~~ judgement.

Relevance

A259. 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

A260. 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~~ judgement regarding the attributes of relevance and reliability

A261. Factors that may affect the practitioner's professional ~~judgment~~ judgement 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.

A262. 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.

A263. 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 authorised 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. 91)

A264. 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.

A265. 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. 92)

A266. 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 judgment 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 ~~judgment~~judgements of the management's expert.

Competence and Capabilities of the Management's Expert (Ref: Para. 92(a))

A267. 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.

A268. 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. 92(b))

A269. 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. 92(c))

A270. 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.

A271. 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. 92(d))

A272. 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. 93–94)

A273. 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.

A274. 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.

A275. 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.

A276. In cases of doubt about the reliability of information or indications of possible fraud, this ISSA (NZ) 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. 95)

Planning Activities

A277. 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.

A278. 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.

A279. 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.

A280. 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.
- 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.

A281. 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.

A282. 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

A283. 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

A284. The practitioner uses professional ~~judgment~~judgement 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 A286–A287).
- How the entity's industry peers present the sustainability information.

A285. 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.

A286. In addition to the factors in paragraph A284, 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.

A287. 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~~judgement. 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~~labour 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 ~~judgment~~judgemental; 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. 96(a))

A288. For a group sustainability assurance engagement, the determination of the information on which assurance work will be performed is a matter of professional ~~judgment~~judgement 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 A284 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. 96(b))

A289. 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 central~~iz~~isation. For example, the need to involve a component practitioner may be greater when the system of internal control is decentral~~iz~~ised.
- 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).

A290. 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 A252–A253.
- 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. 96(c))

A291. 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. 98–100)

A292. 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.

A293. Considering materiality for qualitative disclosures involves the practitioner actively reflecting upon factors that may lead to potential material misstatements (see paragraph A300).

A294. 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, ~~judgment~~judgements 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 A284-A287.

A295. Professional ~~judgment~~judgements 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.

A296. 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) ~~Judgment~~Judgements 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.

A297. Materiality is a matter of professional ~~judgment~~judgement 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~~analysed it to determine what issues were important to those surveyed and reported on those areas.

A298. 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.

A299. 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. 98(a))

A300. 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~~programme or public sector entity, whether a particular aspect of the ~~program~~programme or entity is significant with regard to the nature, visibility and sensitivity of the ~~program~~programme 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. 98(b))

A301. Quantitative factors relate to the magnitude of misstatements relative to the disclosures, if any, that are:

- Expressed numerically; or
- 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).

A302. Qualitative factors may also be relevant when determining materiality for quantitative disclosures. Example of qualitative factors are provided in paragraph A300.

A303. 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).

A304. Factors that may affect the identification of an appropriate benchmark and percentage include:

- 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.
- 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.
- 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.

A305. 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. 99)

A306. If double materiality, as described in paragraph A337 is required to be applied by the reporting framework or entity-developed criteria, paragraph 99 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 A300 and other misstatement considerations in paragraphs A491–A493, ordinarily the greater level of detail needed in the materiality for financial or impact materiality would be used.

Performance Materiality (Ref: Para. 100)

A307. 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.

A308. 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; and
- (b) Consider what types of errors or omissions would potentially constitute a material misstatement when aggregated with other misstatements.

A309. The determination of performance materiality is not a simple mechanical calculation and involves the exercise of professional ~~judgment~~judgement. 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.

A310. 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.

A311. 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. 101)

A312. 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. 103L–105)

A313. 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.

A314. 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~~judgement to determine the nature and extent of the risk assessment procedures to be performed to meet the requirements of this ISSA (NZ) 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.

A315. The type of risk assessment procedures performed by the practitioner may include the following:

- (a) ~~Inquiry~~Enquiries 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~~judgement, 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.

A316. Information obtained by the practitioner through ~~inquiry~~enquiries 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~~enquiry alone ordinarily is not sufficient to identify and assess risks of material misstatement at the assertion level.

A317. 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.

A318. 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. 104)

A319. Paragraph 75 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~~ fulfill the requirements in paragraphs 103L and 103R, 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. 105)

A320. 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.

A321. When the engagement is carried out by a single individual, such as a sole practitioner, consideration of the matters referred to in paragraph 105 nonetheless may assist the practitioner in identifying and assessing risks of material misstatement.

Understanding the Sustainability Matters and the Sustainability Information (Ref: Para. 106)

A322. The characteristics of events or conditions that could give rise to a material misstatement of the disclosures may include complexity, ~~judgment~~~~judgement~~, 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.

A323. 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~~~~unfavourable~~ 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~~~~favourably~~ considered in relation to future ~~endeavors~~~~endeavours~~, 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.

A324. 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.

A325. 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. 107)

A326. 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 78 (see also paragraph A199). 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.

A327. If the applicable criteria comprise framework criteria that are presumed to be suitable, as described in paragraph A197, 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 107. 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.

A328. 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~~judgement in applying the applicable criteria, and therefore may give rise to risks of material misstatement due to inappropriate ~~judgment~~judgements 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~~judgement, and may be susceptible to bias. The determination required by paragraph 107 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. 78(c), 107)

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 171–177.
- 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. 78(c), 107)

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. 78(c), 107)

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. 78(c), 107)

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. 78(c)(i), 107)

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 recognised 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. 99, 107)

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. 78(c)(ii), 107)

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 ~~judgment~~judgements in preparing the sustainability information.
- The source of significant inherent uncertainties in applying the criteria.
- The reporting boundary.

Reliability of the Criteria (Ref: Para. 78(c)(iii), 107)

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. 78(c)(iv), 107)

A340. In evaluating whether the criteria are neutral, the practitioner may consider whether the criteria:

- Require a balanced disclosure of both ~~favorable~~favourable and ~~unfavorable~~unfavourable 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. 78(c)(v), 107)

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. 108–109)

A343. 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.

A344. 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 Organisational Structure, Ownership and Governance, and Business Model (Ref: Para. 110(a))

A345. The practitioner uses professional ~~judgment~~ judgement 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 than the depth of understanding necessary in a reasonable assurance engagement.

A346. 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 110(b))

A347. Understanding the reporting boundary may require the analysis of complex organisational structures (e.g., multiple operating units in different jurisdictions), contractual relationships and activities within the entity's value chain. The way operations are organised 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. 110(c))

A348. 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. 111)

A349. 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.

A350. 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.

A351. 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~~Enquire of management as to other laws or regulations that may be expected to have a fundamental effect on the operations of the entity.
- ~~Inquire~~Enquire of management concerning the entity's policies or procedures regarding compliance with laws and regulations.

~~Inquire~~Enquiries and Discussion with Appropriate Parties (Ref: Para. 112)

A352. ~~Inquire~~Enquiries of appropriate parties and, when appropriate, others within the entity may offer the practitioner varying perspectives in performing risk assessment procedures.

Examples:

- ~~Inquire~~Enquiries 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.
- ~~Inquire~~Enquiries of management may help the practitioner to evaluate the appropriateness of the selection and application of the applicable criteria.
- ~~Inquire~~Enquiries 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.
- ~~Inquire~~Enquiries directed towards the risk management function (or ~~inquire~~enquiries of those performing such roles) may provide information about operational and regulatory risks that may affect the sustainability information.
- ~~Inquire~~Enquiries directed towards IT personnel may provide information about system changes, system or control failures, or other IT-related risks.

A353. If an entity has an internal audit function, ~~inquire~~enquiries 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. 113L, 113R)

A354. 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.

A355. 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.

A356. 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 ~~inquire~~enquiries of entity personnel. A walkthrough involves selecting events or conditions and tracing them through the applicable process in the information system.

A357L. In a limited assurance engagement, the practitioner uses professional ~~judgment~~judgement 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 ~~inquire~~enquiry in a limited assurance engagement but may need to perform a walk-through in a reasonable assurance engagement.

A358. 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 106 requires the practitioner to understand the sustainability matters (in this case, controls over occupational health and safety). In these circumstances, paragraphs 113L and 113R 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.

A359. 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. 114L, 114R)

A360. The practitioner's understanding of the control environment, such as how the entity demonstrates ~~behavior~~behaviour 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.

A361R. 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.

A362. 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.

Scalability

A363. 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. 115L, 115R)

A364. Understanding the results of the entity's risk assessment process may assist the practitioner in:

- Identifying and assessing risks of material misstatement in the disclosures; and
- Obtaining an understanding of the sustainability matters and other engagement circumstances.

A365R. 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.

A366. 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.

A367R. 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:

- Specified the entity's objectives with sufficient precision and clarity to enable the identification and assessment of the risks relating to the objectives;
- Identified the risks to achieving the entity's objectives and ~~analyzed~~analysed the risks as a basis for determining how the risks should be managed; and
- Considered the potential for fraud when considering the risks to achieving the entity's objectives.

A368. 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. 116L, 116R)

A369. 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.

A370. 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.

A371R. 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; and
 - (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.

A372R. 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.

A373R. 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.

A374R. 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.

Scalability

A375R. 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.

A376R. 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. 117–118)

A377. The practitioner uses professional ~~judgment~~judgement to determine which aspects of the information system are relevant to the sustainability matters and the preparation of the sustainability information and may make ~~inquire~~enquiries of the appropriate party(ies) about those aspects and perform other procedures, as necessary.

A378. 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.

A379. The practitioner's understanding of the information system may be obtained in various ways and may include:

- (a) ~~Inquire~~Enquiries 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).

A380. 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~~programme changes to IT applications, or direct changes to data in databases involved in processing or storing that information.

Scalability

A381. 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 ~~inquire~~enquiry 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. 117(a))

A382. 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.

A383. 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~~judgement, 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.

A384. 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 its 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. 117(b))

A385. 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; and
- (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. 118)

A386. 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. 119R, 120L)

A387. 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.

A388. An assurance engagement does not require an understanding of all the controls related to each disclosure or to every assertion relevant to them.

A389. 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 organisation, controls at the entity that relate to the services provided by the service organisation.

A390. 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.

A391. 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.

A392. Risks arising from IT may include unauthorized access, ~~program~~ programme 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. 120L, 120R)

A393. 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).

A394. 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.

A395. 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.

A396. 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.

A397. 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.

A398. 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).

A399L. In accordance with paragraph 120L, 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. 121)

A400. 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.

A401. 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.

A402. 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

A403. 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; or
- Consider the implications for the practitioner's report.

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 122L, 122R)

A404. Identifying and assessing the risks of material misstatement involves professional ~~judgment~~judgement based on the practitioner's understanding of the sustainability matters and the sustainability information and the entity and its environment.

A405. 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).

A406L. 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.

A407. 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.

A408. The manner in which the practitioner groups the disclosures for purposes of planning and performing the engagement (see paragraphs A285–A287) affects how the practitioner identifies and assesses the risks of material misstatement.

A409L. 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 A406L. 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 148L requires the practitioner to perform additional procedures.

A410. 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 A300 and A301, respectively, may be helpful in this regard.

A411. 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.

A412. 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 in a reasonable assurance engagement, paragraph 140R requires the practitioner to consider the need to design and perform substantive procedures for disclosures that, in the practitioner's judgment, are material.

A413. The 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.

A414. 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

A415R. 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.

A416L. 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.

A417. 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~~programme 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~~favorable information by using large, bold or brightly-colored~~coloured~~ text and images, or other ways to emphasize the presentation, but presents ~~unfavorable~~unfavourable information less conspicuously, for example, by using small or ~~light-colored~~light-coloured 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. 123R)

A418R. 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. 124)

A419. 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 128L and 128R.

Responding to Risks of Material Misstatement

Designing and Performing Further Procedures (Ref: Para. 126L–127)

A420. The practitioner's further procedures may include a combination of procedures such as inspection; observation; confirmation; recalculation; reperformance; analytical procedures; and ~~inquiry~~enquiry. Determining the further procedures to be performed on a particular engagement is a matter of professional ~~judgment~~judgement. 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.

A421. 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~~analysing 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.

A422. The planned nature, timing and extent of further procedures is a matter of professional ~~judgment~~judgement 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.

A423. 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 A284);
- 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.

A424. 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 ~~inquire~~enquiries 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.

A425. Examples of reasons for the assessment given to a risk of material misstatement:

- The inherent complexity of the sustainability matter or ~~judgment~~judgement 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 organ~~iz~~isation, 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 unauthor~~iz~~ised 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 ~~judgment~~judgements 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.

A426. 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).

A427. 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~~behaviour 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. 128L, 128R)

A428. Paragraphs 126L and 126R 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 128L or 128R, 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).

A429. 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. 129–131)

A430. 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.

A431. 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.

A432. 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.

- A433. 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 67.
- A434. 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.
- A435. 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. 132, 135)

- A436. 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.
- A437. 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.
- A438. 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~~enquiries 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.

A439. 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. 140R)

A440R. 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 A285–A287 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 140R 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~~judgement 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.

A441R. 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 ~~judgment~~judgemental.
- 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. 141R)

A442. The practitioner may consider performing confirmation procedures to request information regarding assertions, disclosures, topics, or aspects of topics.

A443. 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. 142)

A444. 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.

A445. 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. 143L–143R)

A446. 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.

A447. Analytical procedures may be particularly effective when disaggregated data is readily available, or when the practitioner has reason to consider the data to be used is reliable, such as when it is extracted from a well-controlled source. In some cases, data to be used may be captured by the financial reporting information system or may be entered in another information system in parallel with the entry of related financial data, and some common input controls applied. For example, the quantity of fuel purchased as recorded on suppliers' invoices may be input under the same conditions that relevant invoices are entered into an accounts payable system. In some cases, data to be used may be an integral input to operational decisions and therefore subject to increased scrutiny by operational personnel, or subject to separate external procedures (for example, as part of a joint venture agreement or oversight by a regulator).

A448L. 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. 145)

A449. 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. 146L, 146R)

A450. 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.

A451. 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~~judgement. 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.

A452. 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.

A453R. When designing the procedures required by paragraph 146R(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 the 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.

A454. Regardless of the source or degree of uncertainty, complexity or subjectivity, or the extent of management's ~~judgment~~judgement, 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.

A455L. In some limited assurance engagements, it may be appropriate for the practitioner to undertake one or more of the procedures in paragraph 146R.

Evaluating Whether the Method Has Been Appropriately Selected and Applied (Ref: Para 146R(b)(i)a.)

A456R. In evaluating whether the method has been appropriately selected and applied, the practitioner's further procedures may address:

- (a) Whether ~~judgment~~judgements 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 ~~judgment~~judgements 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. 146R(b)(i)b.)

A457R. In evaluating whether the assumptions are appropriate, the practitioner's further procedures may address:

- (a) Whether ~~judgment~~judgements 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. 146R(b)(i)c.)

A458R. In evaluating whether the data are appropriate, the practitioner's further procedures may address:

- (a) Whether ~~judgment~~judgements 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. 146L(a)(iii), 146R(b)(i))

A459. 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. 146R(b)(ii))

A460R. 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.

A461R. 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.

A462R. 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~~ **judgement** 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. 147R)

A463R. If, having performed the additional procedures required by paragraph 147R(b), the practitioner is not able to obtain sufficient appropriate evidence to reach a reasonable assurance conclusion, a scope limitation exists and paragraph 185 applies.

Determining Whether Additional Procedures Are Necessary in a Limited Assurance Engagement (Ref: Para. 148L)

A464L. 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 ~~inquir~~enquiries as to the potential source, and how it has been incorporated into the emissions disclosures.

A465L. The practitioner's ~~judgment~~judgement 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.

A466L. The practitioner uses professional ~~judgment~~judgement 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.

A467L. If, having performed the additional procedures required by paragraph 148L, 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 185 applies.

The Entity's Process for Assembling the Sustainability Information (Ref: Para. 149L, 150R)

A468. 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.

A469R. Other procedures to respond to the risk of management override of controls may include:

- ~~Inquir~~Enquiring 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. 153)

- A470. 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.
- A471. 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.
- A472. Clearly trivial may be considered in the context of the impact of the misstatement on the intended users' decisions. As explained in paragraph A36, 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.

A473. Examples of where or how misstatements in sustainability information may arise:

- An inaccuracy in gathering or processing information used to prepare the sustainability information.
- Manipulating or obscuring the sustainability information in a manner that would be misleading to the intended users.
- Management's ~~judgment~~judgements involving estimates being considered unreasonable by the practitioner.
- 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.
- 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.
- The inclusion of information that is not supported by sufficient appropriate evidence.
- The omission of sustainability information, for example, information that, in the practitioner's ~~judgment~~judgement, 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.

- (h) Sustainability information that, in the practitioner's ~~judgment~~judgement, is:
 - (i) Ambiguous; or
 - (ii) Capable of being determined precisely, but is presented in a vague manner.
- (i) Changes since the previous reporting period to the sustainability information without reasonable justification for doing so or without disclosing the reasons for doing so.
- (j) 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.
- (k) 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.

A474. 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.

A475. 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.

A476. 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 175 applies.

Considering Whether Identified Misstatements May Be Due to Fraud (Ref: Para. 154)

A477. Paragraph 78 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.

A478. 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; or
- (b) Misrepresentation in, or omission from, the sustainability information.

A479. 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~~favourably 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~~labour.
- 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~~favourable 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.

A480. 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; and
- (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. 155)

A481. 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 113L and 113R).

Communicating and Correcting Misstatements (Ref: Para. 156–158)

A482. In the case of narrative disclosures, asking management to correct a misstatement may involve management either re-wording or removing the misstated text.

A483. The practitioner's understanding of management's reasons for not making the corrections may indicate possible bias in management's ~~judgment~~judgements.

Evaluating the Effect of Uncorrected Misstatements (Ref: Para. 160)

A484. Determining whether uncorrected misstatements are material involves professional ~~judgment~~judgement 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.

A485. 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 A488 and A489).
 - (ii) Material in aggregate to the entirety of the sustainability information (i.e., in aggregate across all disclosures) (see paragraph A490).

A486. 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.

A487. When the scope of the 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.

A488. 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.

- A489. 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.
- A490. 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~~favourable 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

- A491. 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 to be 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~~behaviour

- (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.

A492. 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~~favourable outcome that is collectively material, or indicate management bias.

A493. 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

A494. 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 190(g) and A579 address the appropriate descriptions to be included in the assurance report.

A495. 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.

A496. 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.

A497. 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.

A498. 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 ~~judgment~~judgemental 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; or

- (c) Selected significant assumptions that ~~favor~~favour management's objectives, or that may indicate a pattern or trend.

Evaluating the Description of Applicable Criteria (Ref: Para. 162)

A499. The preconditions for an assurance engagement in paragraph 78 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.

A500. 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.

A501. 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 ~~authoriz~~authorized or ~~recogniz~~recognized ~~organ~~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 ~~judgment~~judgements 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. 163–164)

A502. 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.

A503R. 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) ~~Inquire~~Enquiring 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 ~~inquire~~enquiring 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.

A504L. The practitioner's procedures to identify subsequent events may include ~~inquire~~enquiring of management, and as appropriate, those charged with governance, about whether any subsequent events have occurred that may affect the sustainability information.

A505. 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 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. 165)

- A506. 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.
- A507. 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. 171)

- A508. 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.
- A509. The objective of the required discussion with management in paragraph 171(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 172. 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.
- A510. 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 [\(NZ\)](#) before the date of the assurance report.
- A511. 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 [\(NZ\)](#). The practitioner has no responsibility under this ISSA [\(NZ\)](#) 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. 172)

- A512. 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.
- A513. In some cases, disclosures in the other information may summarise, 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 judgement recognising that the practitioner's responsibilities under this ISSA (NZ) 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. 175–176)

- A514. The actions the practitioner takes if the other information is not corrected after communicating with those charged with governance are a matter of professional judgement. 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. 175–176)

- A515. 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. 176(a))

A516. 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. 176(b))

A517. 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. 177)

A518. 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. 178)

A519. 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~~judgement. 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.

A520. 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.

A521. The practitioner's professional ~~judgment~~judgement 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.

A522. 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 ~~judgment~~judgements 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 ~~judgment~~judgements 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. 180)

A523. 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 ~~inquire~~enquiries 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 90. Paragraph 94 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.

A524. 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.

A525. 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.

A526. 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 185.

Concluding (Ref: Para. 181–184)

A527. 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 ~~judgment~~judgements 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. 182)

A528. 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~~judgement. 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.

A529. 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. 185)

A530. 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.

A531. 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. 186(d)(i))

A532. 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 ~~judgment~~ **judgements** 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.

A533. 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.

A534. If the engagement leader's involvement does not provide the basis for determining that the significant ~~judgment~~judgements made and the conclusions reached are appropriate, the engagement leader will not be able to make the determination required by paragraph 186. 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. 187)

A535. 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.

A536. Engagement documentation evidencing the involvement of the engagement leader and the engagement leader's determination in accordance with paragraph 186(d)(i) 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~~behaviours 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. 188–189)

A537. 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.

A538. Appendix 3 contains illustrations of assurance reports on sustainability information, incorporating only the basic elements in paragraph 190 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 (NZ) or the practitioner may consider that additional matters are needed to aid the understanding of the intended users.

Assurance Report Content (Ref: Para. 190)

A539. This ISSA does not require a standardised 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 (NZ), 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. 190(a))

A540. To be independent, an assurance report is prepared by a practitioner that complies with the independence requirements of ~~the IESBA Code~~ PES 1 related to sustainability assurance engagements or requirements that are at least as demanding.

Addressee (Ref: Para. 190(b))

A541. 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. 190(c))

The level of assurance obtained (Ref: Para. 190(c)(iii))

A542. 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 190.

Identification or description of the sustainability information (Ref: Para. 190(c)(iv))

A543. 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 A544).
- Where applicable, the name of other entity(ies) (such as entities in the value chain), facility(ies), location(s), jurisdiction(s) or other boundary(ies) 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 ~~judgment~~judgemental, 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.

A544. 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. 190(c)(vi)–(vii), 198L, 198R)

A545L. 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."

A546R. 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, properly prepared” 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.”

A547. 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. 190(c)(vii))

A548. In order for the practitioner to accept or continue the engagement, paragraph 81 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 author~~ized~~ or recogn~~ized~~ed organ~~ized~~isation 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 users’ 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.

A549. 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.

A550. 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.

A551. 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 summarised 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 190(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. 190(c)(ix))

A552. 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. 190(d))

Statement that the engagement was conducted in accordance with this ISSA (NZ) (Ref: Para. 190(d)(i))

A553. Practitioner’s statements that contain imprecise or limiting language (for example, “the engagement was performed by reference to (or based on) ~~ISSA 5000~~ISSA (NZ) 5000”) may mislead users of assurance reports. In these circumstances, users may understand that all of the requirements of this ISSA (NZ) have all been complied with, even if they have not (see paragraph 20).

Statement about independence requirements specific to certain entities (Ref: Para 190(d)(v))

A554. 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. 190(f))

A555. 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.

A556. 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~~fulfils the responsibilities described in paragraph 190(f)(i).

Applicability of responsibility for fair presentation of the sustainability information (Ref: Para. 190(f)(i)a.)

A557. 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. 190(g))

A558. 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.

A559. 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.

A560. 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. 190(i))

A561. 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.

A562R. The assurance report in a reasonable assurance engagement requires a section with the subheading "Practitioner's Responsibilities" that briefly describes procedures performed (see paragraph 190(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.

A563L. 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.

A564L. 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.

A565L. In describing the procedures performed in a limited assurance report, it is important that they are written in an objective way but are not summarised to the extent that they are ambiguous, nor written in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is also important that the description of the procedures 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. 190(l))

A566. 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. 190)

A567. 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 190. "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; or
- (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 189, 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.

A568. 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.

A569. In addition to the basic elements described in paragraph 190, the practitioner may decide to include additional information in the assurance report (see paragraph A567). 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. 191)

A570. The objective of the firm in [ISQM PES 4-3](#) 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~~ 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 PES 4-3](#), 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.

A571. 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.

A572. 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. 192)

A573. 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.

A574. 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, 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 192.

A575. 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. 193–194)

A576. 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 [\(NZ\)](#). 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.

A577. 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.

A578. Paragraphs 193–194 permit combined presentation of other reporting responsibilities and the practitioner's responsibilities under this ISSA [\(NZ\)](#) only when they address the same elements as those presented under the reporting responsibilities required by this ISSA [\(NZ\)](#) and the wording of the assurance report clearly differentiates the other reporting responsibilities from those under this ISSA [\(NZ\)](#). 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~~ [ISSA \(NZ\) 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. 199)

A579. When significant inherent limitations are described in the assurance report in accordance with paragraph 190(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.

A580. An Emphasis of Matter paragraph can only draw attention to a matter which is presented or disclosed by 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.

A581. 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.

A582. 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. 200)

A583. 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.

A584. In addition to the alert required by paragraph 200, 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. 201–202)

A585. 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.

A586. 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 202(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. 203–206)

Impact of Qualified Conclusions Due to Limitation of Scope on the Statement on Other Information (Ref: Para. 203(a))

A587. 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 202(e)(i) 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 Due to Uncorrected Misstatements on the Statement on Other Information (Ref: Para. 203(b))

A588. A qualified or adverse assurance conclusion on the sustainability information may not have an impact on the statement on other information required by paragraph 202(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 A589–A590.

A589. 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.

A590. 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 202(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 202(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. 204)

A591. 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~~judgement:

- (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.

A592. The nature of the matter, and the practitioner's ~~judgment~~judgement 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. 203)

A593L. 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.”

A594R. 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.”

A595. 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. 207–211)

- A596. 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.
- A597. 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.
- A598. 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.
- A599. 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 209 and 210.
- A600. The identification of information required under paragraphs 209 and 210 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.
- A601. If the engagement does not include assurance on comparative information, the requirement to perform procedures in the circumstances addressed by paragraph 211 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. 212)

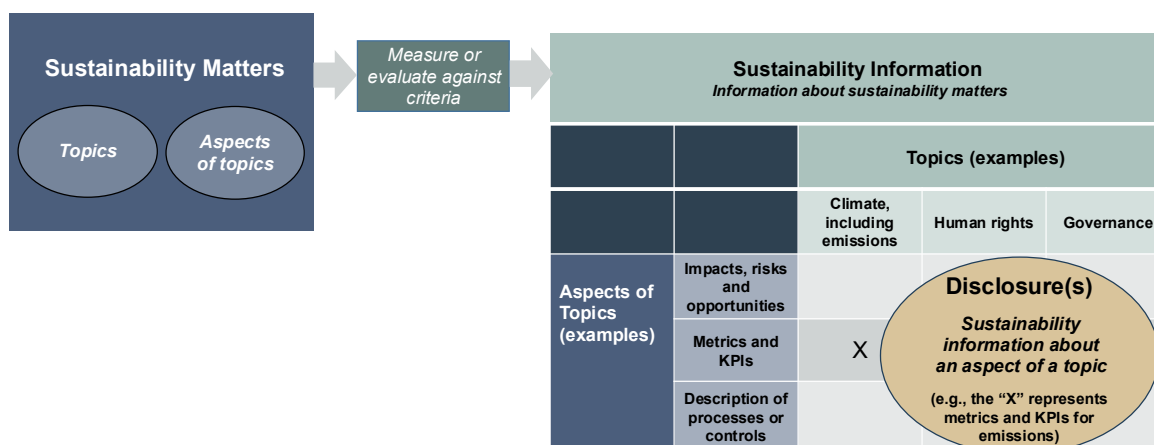
- A602. Examples of exceptional circumstances include facts that become known to the practitioner after the date of the assurance report but which existed at that date and which, if known at that date, might have caused the sustainability information to be amended or the practitioner to modify the conclusion 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 PES 13](#), with the engagement leader taking final responsibility for the changes.

Appendix 1

(Ref: Para. 2, A21–A22)

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:



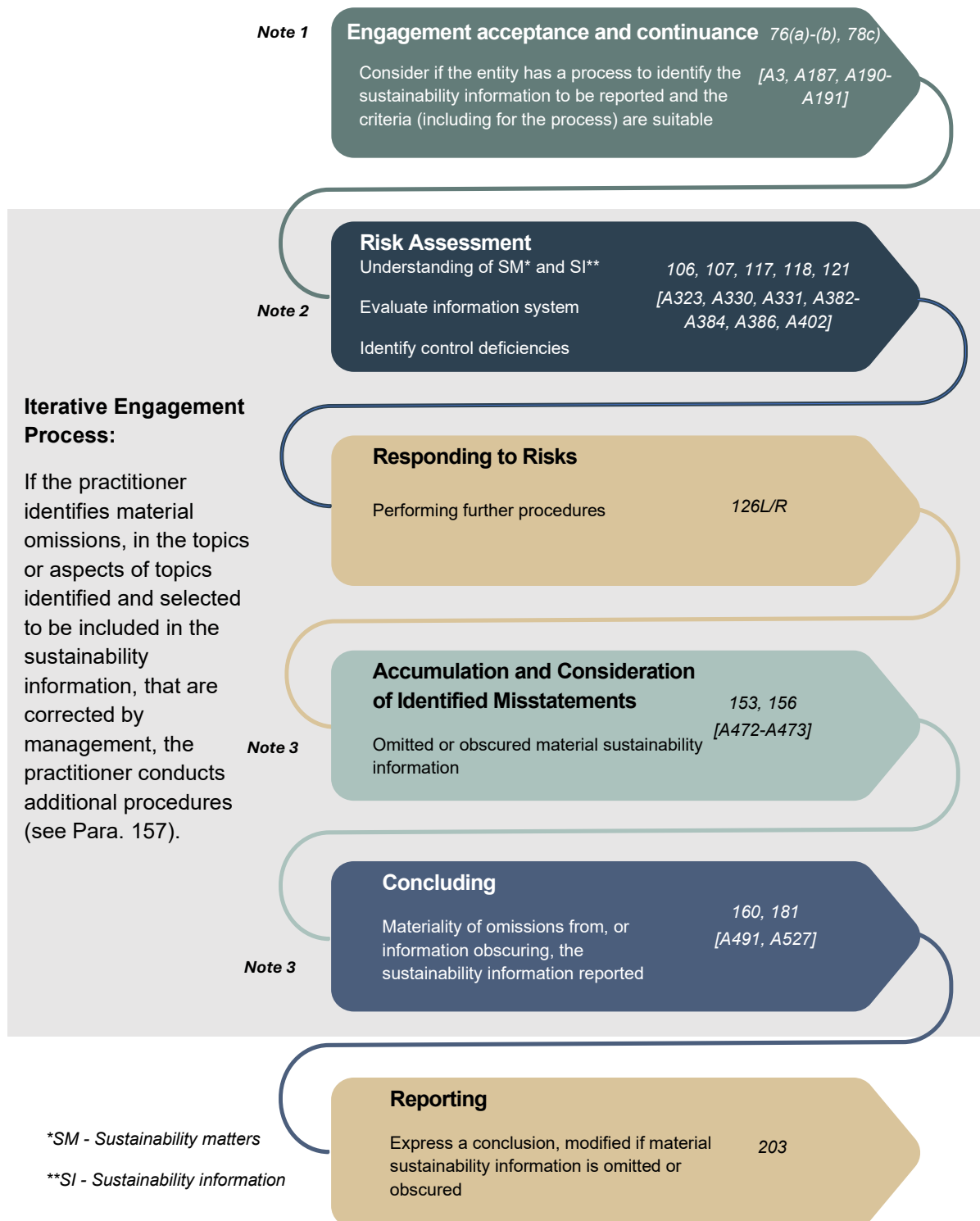
3. Paragraph 75 requires the practitioner to obtain a preliminary knowledge of the sustainability information to be reported by the entity. As a part of establishing whether the preconditions for an assurance engagement are present, paragraph 76(a) requires the practitioner to consider whether the entity 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 A43.
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~~judgement, as explained in paragraph A287.

Appendix 2

(Ref: Para. 4, A3)

The Practitioner's Consideration of the Entity's Process to Identify Sustainability Information to be Reported

- 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.



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 76(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 78(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 117 and 118). 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...
76 (a) [A3, A187]	Consider whether the entity has a process to identify the sustainability information to be reported.
76 (b) [A190–A191]	Evaluate whether management, or those charged with governance, when appropriate, have a reasonable basis for the sustainability information.
78	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...
106 [A323]	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.
107 [A330–A331]	Determine whether the applicable criteria are suitable for the engagement circumstances, including that they exhibit the characteristics in paragraph 78.

Requirement [Application Material] Paragraph Number	Relevant extract of the requirement wording The practitioner shall...
117 [A382–A384]	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....
118 [A386]	Evaluate whether the entity’s information system appropriately supports the preparation of the sustainability information in accordance with the applicable criteria.
121 [A402]	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.
126L/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 for the disclosures.
153 [A472–A473]	Accumulate misstatements identified during the engagement, other than those that are clearly trivial.
156	Communicate to management, on a timely basis, all misstatements accumulated during the assurance engagement, and shall request management to correct those misstatements.
160 [A491]	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.
181 [A527]	Form a conclusion about whether the sustainability information is free from material misstatement, whether due to fraud or error...
203	Express a modified conclusion ... when, in the practitioner’s professional judgment <u>judgement</u> , a scope limitation exists, and the effect of the matter could be material ... (or) ... the sustainability information is materially misstated.

Appendix 3

(Ref: Para. A538)

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 (the Company), a listed entity, for the year ended December 31, 20X1 (the Sustainability Information).
- The Sustainability Information is prepared by management of the Company in accordance with fair presentation criteria (Sustainability Reporting Framework Version x.1).
- The Sustainability Information 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~~[ISSA \(NZ\) 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 ~~ISQPES 43~~.
- The Sustainability Information 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.

- In addition to the reasonable assurance engagement on the Sustainability Information, the practitioner has other reporting responsibilities required under local law.

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 Information¹

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 (NZ) 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.

¹ 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 Matter²

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 Information³

Management of the Company is responsible for the other information. The other information comprises the [information included in the Company's Annual report],⁴ 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 Information⁵

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.

² Include if the practitioner considers it necessary in the engagement circumstances – see paragraph 199.

³ Another appropriate heading may be used, such as "Information Other than the Sustainability Information and Reasonable Assurance Report Thereon."

⁴ 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.

⁵ Include paragraph if relevant to the engagement circumstances – see paragraph 190(g).

As part of a reasonable assurance engagement in accordance with ~~ISSA 5000~~ISSA (NZ) 5000, we exercise professional ~~judgment~~judgement and maintain professional ~~skepticism~~scepticism 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.⁶
- 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~~ISSA (NZ) 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~~ISSA (NZ) 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]

⁶ 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 (the Company), an entity other than a listed entity, for the year ended December 31, 20X1, as required by law or regulation (the Sustainability Information).
- 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 Company 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~~[ISSA \(NZ\) 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 ~~ISQPES 31~~.
- 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.

INDEPENDENT PRACTITIONER’S LIMITED ASSURANCE REPORT ON ABC’S SUSTAINABILITY INFORMATION

To the Management of ABC

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 on Sustainability Assurance [New Zealand \(ISSA\(NZ\)\) 5000, General Requirements for Sustainability Assurance Engagements](#), issued by the [New Zealand Auditing and Assurance Standards Board, 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 [Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners \(including International Independence Standards\) \(New Zealand\) International Code of Ethics for Professional Accountants \(including International Independence Standards\) \(IESBA Code\)](#) issued by [the New Zealand Auditing and Assurance Standards Board, 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 [Professional and Ethical Standard 3 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements](#) ~~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 Matter⁷

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 Information⁸

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].

⁷ Include if the practitioner considers it necessary in the engagement circumstances – see paragraph 199.

⁸ Include paragraph if relevant to the engagement circumstances – see paragraph 190(g).

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~~ISSA (NZ) 5000, we exercise professional ~~judgment~~judgement and maintain professional ~~skepticism~~scepticism 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.⁹
- 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~~judgement, including the assessed risks of material misstatement at the disclosures level, whether due to fraud or error.

In conducting our limited assurance engagement, we:

[Insert a summary of the nature and extent of procedures performed that, in the practitioner's ~~judgment~~judgement, 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.]¹⁰

- [...]

[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]

⁹ 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.

¹⁰ 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 ...],¹¹ from the Sustainability Report (“Information RA”)**
- b) **Limited Assurance Conclusion on the selected disclosures, [identified by ...],¹² 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 (the Company), an entity other than a listed entity, for the year ended December 31, 20X1, as required by law or regulation (the Sustainability Report).
- The Sustainability Report represents the sustainability information reported by the Company and Information RA and Information LA represent the sustainability information subject to the assurance engagement.
- The Sustainability Report is prepared by management of the Company 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~~ISSA (NZ) 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 ~~ISQPES 13~~.

¹¹ 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.).

¹² 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.).

- 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 ...],¹³ 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 ...],¹⁴ 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 International Standard on 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

¹³ 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.).

¹⁴ 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.).

Information RA and Information LA in [title/identification of 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 Matter¹⁵

We draw attention to [identify the specific disclosure in the Sustainability Report] from the Information LA of the Sustainability Report, which describes [...]. Our limited assurance conclusion is not modified in respect of this matter.

Other Information¹⁶

Management of the Company is responsible for the other information. The other information comprises the [information included in the Company's Annual Report],¹⁷ 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.

¹⁵ Include if the practitioner considers it necessary in the engagement circumstances – see paragraph 199.

¹⁶ Another appropriate heading may be used, such as “Information Other than the Sustainability Information and Reasonable and Limited Assurance Report Thereon”.

¹⁷ 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 Information¹⁸

As discussed in [identify the specific disclosure in the Sustainability Report], [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~~ISSA (NZ) 5000, we exercise professional ~~judgment~~judgement and maintain professional ~~skepticism~~scepticism 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.¹⁹
 - 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.²⁰
 - 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.

¹⁸ Include paragraph if relevant to the engagement circumstances – see paragraph 190(g).

¹⁹ 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.

²⁰ 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.

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~~judgement, 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~~judgement, 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.]²¹

- [...]

[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]

²¹ 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 (the Company), an entity other than a listed entity, for the year ended December 31, 20X1, as required by law or regulation (the Sustainability Information).
- 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 Company 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~~ISSA (NZ) 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 ~~ISQMPE 13~~.
- There is no other information because the Company’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.

INDEPENDENT PRACTITIONER’S LIMITED ASSURANCE REPORT ON ABC’S SUSTAINABILITY INFORMATION

To the Management of ABC

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 [...].²² We were unable to obtain sufficient appropriate evidence about [...] as at December 31, 20X1 because [...].²³ Consequently, we were unable to determine whether any adjustments to [...] were necessary.

We conducted our limited 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.

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.

Emphasis of Matter²⁴

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.

²² Insert a description of the relevant disclosure.

²³ Provide a description of the matter giving rise to, and the reasons for, the qualified conclusion.

²⁴ Include if the practitioner considers it necessary in the engagement circumstances – see paragraph 199.

Inherent Limitations in Preparing the Sustainability Information²⁵

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~~ISSA (NZ) 5000, we exercise professional ~~judgment~~judgement and maintain professional ~~skepticism~~scepticism 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.²⁶
- 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~~judgement, including the assessed risks of material misstatement at the disclosures level, whether due to fraud or error.

In conducting our limited assurance engagement, we:

[Insert a summary of the nature and extent of procedures performed that, in the practitioner's ~~judgment~~judgement, 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.]²⁷

- [...]

[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]

²⁵ Include paragraph if relevant to the engagement circumstances – see paragraph 190(g).

²⁶ 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.

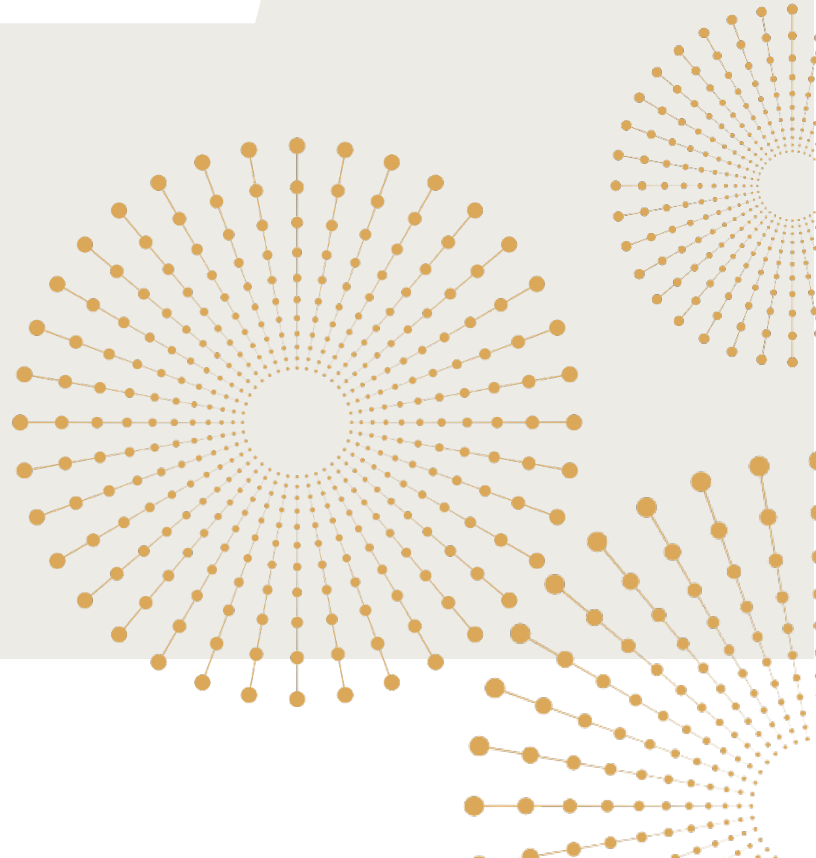
²⁷ The procedures are to be summarized but not to the extent that they are ambiguous, nor described in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is important that the description of the procedures does not give the impression that those procedures were agreed upon by the assurance practitioner with management, and in most cases will not detail the entire work plan.

Conforming Amendments arising from the International Standard On Sustainability Assurance (New Zealand) 5000, General Requirements For Sustainability Assurance Engagements

Exposure Draft

Submissions close x September 2025

June 2025



THE INTERNATIONAL STANDARD ON SUSTAINABILITY ASSURANCE (NEW ZEALAND) 5000,
GENERAL REQUIREMENTS FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS

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ISBN xxx

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Part A. - Introduction

This proposed amending Standard makes changes to applicable audit and assurance standards. The amendments are to reflect amendments arising due to the adoption of International Standard on Sustainability Assurance (New Zealand) 5000, General Requirements for Sustainability Assurance Engagements.

Part B. Proposed Commencement and application

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

0. This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

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

0.1 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**.

0.2 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 for an assurance engagement and
 - (ii) discloses in the assurance report for that accounting period that this standard has been applied for that period.

mandatory date means 15 December 2026.

¹ The standard was published on [Date]

**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**

CONTENTS

New text is underlined. Headings of the standard are provided for context.

Application and Other Explanatory Material

...

Scope of this PES (Ref: Para. 3–4)

- A1. Other pronouncements of the NZAuASB, ~~including ISRE (NZ) 2400 (Revised) and ISAE (NZ) 3000 (Revised)~~, also establish requirements for the engagement partner or engagement leader, as applicable, for the management of quality at the engagement level, including ISRE (NZ) 2400 (Revised) and ISAE (NZ) 3000 (Revised) for the engagement partner, and ISSA (NZ) 5000 for the engagement leader.

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), ISSA (NZ)'s, ISAEs (NZ) or SAEs, 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 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 (NZ), ISSA (NZ)'s, ISAEs (NZ) 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.

**...PROFESSIONAL AND ETHICAL STANDARD (PES) 4, ENGAGEMENT QUALITY
REVIEWS**

Performance of the Engagement Quality Review (Ref: Para. 24–27)

Engagement Partner Responsibilities in Relation to the Engagement Quality Review (Ref: Para. 24(b))

...

- A26. SAE (NZ) 3000 (Revised) and ISSA (NZ) 5000 also establishes requirements for the engagement partner in relation to 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 or assurance engagements on sustainability information, which are dealt with in International Standards on Auditing (New Zealand) (ISAs (NZ)), International Standard on Review Engagement (New Zealand) (ISRE (NZ)) and New Zealand Standard on Review Engagement (NZ SRE) and International Standards on Sustainability Assurance (ISSAs) respectively. (Ref: Para. A21-A22)

...

Scope

5. This ISAE (NZ) covers assurance engagements other than audits or reviews of historical financial information or assurance engagements on sustainability information. Where a subject-matter specific ISAE (NZ) or Standard on Assurance Engagements (SAE) is relevant to the subject matter of a particular engagement, that ISAE (NZ) or SAE applies in addition to this ISAE (NZ). (Ref: Para. A21–A22)

Application and Other Explanatory Material

...

Conduct of an Assurance Engagement in Accordance with ISAE

Complying with Standards that Are Relevant to the Engagement (Ref: Para. 1, 5, 15)

- A21. This ISAE (NZ) includes requirements that apply to assurance engagements (other than audits or reviews of historical financial information or assurance engagements on sustainability information), including engagements in accordance with a subject matter-specific ISAE (NZ) or SAE. In some cases, a subject matter-specific ISAE (NZ) or SAE is also relevant to the engagement. A subject matter-specific ISAE (NZ) or SAE is relevant to the engagement when the ISAE (NZ) or SAE is in effect, the subject matter of the ISAE (NZ) or SAE is relevant to the engagement, and the circumstances addressed by the ISAE (NZ) or SAE exist.
- A22. The ISAs (NZ), ISRE (NZ) and NZ SRE have been written for audits and reviews of historical financial information, respectively, and do not apply to such other assurance engagements. They may, however, provide guidance in relation to the engagement process generally for assurance practitioners undertaking an assurance engagement in accordance with this ISAE (NZ).

...

ISA (NZ) 720 (Revised), THE AUDITOR'S RESPONSIBILITY RELATING TO OTHER INFORMATION

Application and Other Explanatory Material

...

Definitions

Annual Report (Ref: Para. 12(a))

...

A3. In some cases, an entity’s annual report may be a single document and referred to by the title “annual report” or by some other title. In other cases, law, regulation or custom may require the entity to report to owners (or similar stakeholders) information on the entity’s operations and the entity’s financial results and financial position as set out in the financial statements (i.e., an annual report) by way of a single document, or by way of two or more separate documents that in combination serve the same purpose. For example, depending on law, regulation or custom in a particular jurisdiction, one or more of the following documents may form part of the annual report:

- Management report, management commentary, or operating and financial review or similar reports by those charged with governance (for example, a directors’ report).
- Chairman’s statement.
- Corporate governance statement.
- Internal control and risk assessment reports.
- Sustainability reports or other sustainability-related information.

...

A5. An annual report is different in nature, purpose and content from other reports, such as a report prepared to meet the information needs of a specific stakeholder group or a report prepared to comply with a specific regulatory reporting objective (even when such a report is required to be publicly available). Examples of reports that, when issued as standalone documents, are not typically part of the combination of documents that comprise an annual report (subject to law, regulation or custom), and that, therefore, are not other information within the scope of this ISA (NZ), include: ~~S~~separate industry or regulatory reports (for example, capital adequacy reports), such as may be prepared in the banking, insurance, and pension industries or special purpose reports addressing certain kinds of sustainability information.

- ~~• Corporate social responsibility reports.~~
- ~~• Sustainability reports.~~
- ~~• Diversity and equal opportunity reports.~~
- ~~• Product responsibility reports.~~
- ~~• Labour practices and working conditions reports.~~

...

**ISA (NZ) 805 (Revised), SPECIAL CONSIDERATIONS—AUDITS OF SINGLE
FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF
A FINANCIAL STATEMENT**

...

Application and Other Explanatory Material

...

Scope of this ISA (Ref: Para. 1, 6(c))

...

- A4. A reasonable assurance engagement other than an audit of historical financial information is performed in accordance with International Standard on Assurance Engagements (New Zealand) (ISAE (NZ)) 3000 (Revised),¹⁸ or ISSA (NZ) 5000,² as applicable.

... XRB Au1 APPLICATION OF AUDITING AND ASSURANCE STANDARDS

APPENDIX 4

Other Assurance Engagement Standards

This appendix is an integral part of the Standard

This appendix lists the standard to be applied in conducting other assurance engagements.

ISSA (NZ) 5000 General Requirements For Sustainability Assurance Engagements

APPENDIX 6

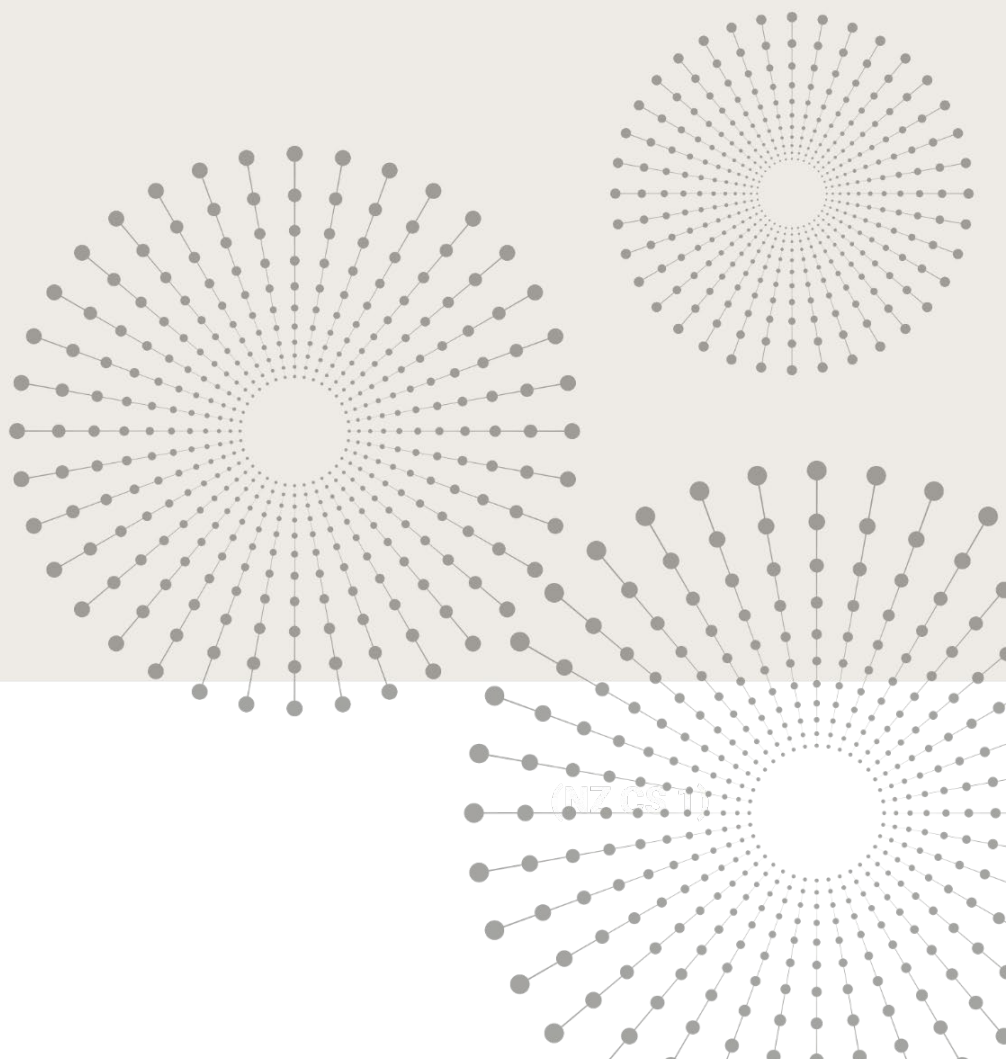
ISSA (NZ) 5000 to be added to the diagram: Overview of the Auditing and Assurance Standards of the XRB, and the Engagements Governed by the Standards.]

² International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements

International Ethics Standards for Sustainability Assurance (including International Independence Standards) (New Zealand)

Exposure Draft

Submissions close (TBC)



June 2025



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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 2019¹. Early adoption is permitted.

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:
- for an **early adopter**, those accounting periods, following and including, the **early adoption accounting period**.
 - for any other auditor, assurance practitioner or firm, 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, assurance practitioner or firm that applies this standard for an early adoption accounting period.

early adoption accounting period means the accounting period:

- 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
- for which the early adopter:
 - first applies this standard for an audit engagement or an assurance engagement; and
 - discloses in the auditor's report or the assurance report for that accounting period that this standard has been applied for that period.

mandatory date means 15 December 2026.

Transitional Provisions

4. The provisions in Sections 5405 and 5406 related to assurance work performed at a value chain component will be applicable for sustainability assurance engagements on sustainability information for periods beginning on or after 1 July 2028, or as at a specific date on or after 1 July 2028. For sustainability assurance engagements on sustainability information for periods beginning, or as at a specific date, prior to 1 July 2028 that involve assurance work performed at a value chain component:

- (a) A group sustainability assurance firm or component practitioner that performs assurance work at a value chain component shall apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence in relation to such assurance work;
- (b) If the group sustainability assurance firm intends to use the assurance work of another practitioner, the group sustainability assurance firm shall be satisfied that the other practitioner is independent, and in that regard may rely on a statement of independence in accordance with Part 4B or other professional requirements relating to independence; and
- (c) The group sustainability assurance firm shall publicly disclose that independence provisions applicable to assurance work performed at value chain components under the IESSA have not been applied, pursuant to a deferred effective date for such provisions as specified in the IESSA.

¹ The standard was published on [Date]

5. If a firm has not served as the auditor of the financial statements, the requirement in paragraph R5540.10a also applies where the firm will perform a sustainability assurance engagement on sustainability information for a period beginning prior to 15 December 2026.
 6. For non-assurance services engagements a firm or network firm has entered into with a sustainability assurance client before 15 December 2026, which would be prohibited under Section 5600 and its subsections but for which work has already commenced, the firm or network firm may continue such engagements in accordance with the original engagement terms for no more than one reporting cycle.
 7. A firm might apply the provisions before their application date. In such a case, if the firm intends to use the assurance work of another practitioner performed for a standalone or group sustainability assurance engagement and the other practitioner has complied with the independence provisions of Part 4B in relation to that work, the firm may treat a confirmation or statement of such compliance from the other practitioner as satisfying the requirements of Section 5406 of Part 5.
-

**INTERNATIONAL ETHICS STANDARDS FOR SUSTAINABILITY ASSURANCE
(INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS) (NEW ZEALAND)**

**PART 5 – INTERNATIONAL ETHICS STANDARDS FOR SUSTAINABILITY ASSURANCE
(INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS) (NEW ZEALAND)**

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**PART 5 –
INTERNATIONAL ETHICS STANDARDS FOR SUSTAINABILITY ASSURANCE
(INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS) (NEW ZEALAND)**

**SECTION 5100
COMPLYING WITH PART 5**

Introduction

General

NZ R5100.0A sustainability assurance practitioner shall apply the independence requirements in NZ SAE 1² when conducting an assurance engagement for the disclosures within the climate statements relating to greenhouse gas emissions required by the Financial Markets Conduct Act 2013 (the Act) to be the subject of an assurance engagement.

- 5100.1 It is in the public interest that sustainability assurance practitioners act ethically in order to maintain public trust and confidence in sustainability information that is subject to assurance. High-quality ethics and independence standards alongside other high-quality, globally accepted reporting and assurance standards will help users of sustainability information such as investors, customers, employees, suppliers, regulators and governments to confidently rely on such information in their decision-making.
- 5100.1a Sustainability assurance practitioners are expected to have relevant skills, knowledge and experience to perform sustainability assurance engagements and have appropriate training to ensure their assurance skills are continually up to date with relevant developments.
- 5100.2 This Part sets out ethics (including independence) standards for sustainability assurance practitioners and comprises:
- (a) Sections 5100 to 5390 which set out ethics standards for all sustainability assurance engagements (including those within the scope of the International Independence Standards (New Zealand) in this Part) and other professional services performed for sustainability assurance clients; and
 - (b) Sections 5400 to 5600 which set out independence standards for sustainability assurance engagements that are within the scope of the International Independence Standards (New Zealand) in this Part as set out in paragraphs 5400.3a and 5400.3b.
- 5100.2a When a sustainability assurance practitioner performs a sustainability assurance engagement that is not within the scope of the International Independence Standards (New Zealand) in this Part, Part 4B of the Code sets out the applicable independence standards as set out in paragraph 5400.3e.
- 5100.2b Sustainability assurance practitioners might perform professional activities and have professional and business relationships that are not covered by this Part, in which case:
- (a) Parts 1 to 4B of the Code apply to a practitioner who is a professional accountant.
 - (b) A practitioner who is not a professional accountant is encouraged to apply Parts 1 to 4B of the Code to guide the practitioner's general conduct. Adhering to the ethics (including independence) standards set out in the Code (or other ethics standards at least as

² New Zealand Standard on Assurance Engagements 1 Assurance Engagements over Greenhouse Gas Emissions Disclosures

demanding as the Code) in all professional activities contributes to public trust in sustainability information that is subject to assurance. This includes circumstances where the practitioner:

- (i) Prepares or presents financial or non-financial, including sustainability, information for a client, the firm or others.
- (ii) Faces conflicts of interest when providing professional services to entities that are not sustainability assurance clients.
- (iii) Is offered an inducement by a supplier of the firm or by entities that are not sustainability assurance clients.
- (iv) Encounters suspected non-compliance with laws and regulations, such as fraud, by management, those charged with governance or other individuals at the firm.
- (v) Is asked by an entity that is not an existing sustainability assurance client to provide a second opinion on the preparation of sustainability information or the application of other standards or principles to specific circumstances.
- (vi) Provides tax planning services to entities that are not sustainability assurance clients.

5100.3 This Part sets out high quality standards of ethical behaviour expected of sustainability assurance practitioners for:

- (a) Adoption by those responsible for setting ethics (including independence) standards for sustainability assurance practitioners in particular sectors or jurisdictions.
- (b) Use by firms in developing their ethics and independence policies.

5100.4 This Part establishes five fundamental principles to be complied with by all sustainability assurance practitioners. It also includes a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and threats to independence. This Part also applies the fundamental principles and the conceptual framework to a range of facts and circumstances that sustainability assurance practitioners might encounter.

Sustainability Information Subject to Assurance

5100.4a Sustainability information might include comprehensive disclosures about many different topics or aspects of topics as required by the sustainability reporting framework or by law or regulation, or that an entity chooses to prepare in accordance with other criteria. Alternatively, the sustainability information prepared by an entity might be limited to certain matters, such as metrics, targets or key performance indicators.

5100.4b The criteria used for the reporting of sustainability information on which the sustainability assurance practitioner expresses an opinion might be framework criteria, entity-developed criteria or a combination of both. Framework criteria might be embodied in law or regulation or issued by authorised or recognised bodies that follow a transparent due process.

5100.4c Depending on the criteria used, the sustainability information might be prepared on a single entity or group basis, and might include information from other entities in the reporting entity's value chain.

5100.4d Sustainability information might 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, or presented as part of the management report or management commentary), or in an integrated report.

Requirements and Application Material

- 5100.5 A1 The requirements in this Part, designated with the letter “R,” impose obligations.
- 5100.5 A2 Application material, designated with the letter “A,” provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of this Part. In particular, the application material is intended to help a sustainability assurance practitioner to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of this Part, including application of the conceptual framework.
- R5100.6** A sustainability assurance practitioner shall comply with this Part when providing a professional service described in paragraph 5100.2.
- 5100.6 A1 Upholding the fundamental principles and compliance with the specific requirements of this Part enable sustainability assurance practitioners to act in the public interest when providing sustainability assurance.
- 5100.6 A2 Complying with this Part includes giving appropriate regard to the aim and intent of the specific requirements.
- 5100.6 A3 There might be unusual or exceptional circumstances in which a sustainability assurance practitioner believes that complying with a requirement or requirements in this Part might not be in the public interest when providing sustainability assurance or would lead to a disproportionate outcome. In those circumstances, the practitioner is encouraged to consult with an appropriate body such as a professional or regulatory body, or obtain legal or other expert advice, as appropriate.
- 5100.6 A4 In acting in the public interest, a sustainability assurance practitioner considers not only the preferences or requirements of an individual sustainability assurance client, but also the interests of other stakeholders when performing professional services for sustainability assurance clients.
- 5100.6 A5 When providing a professional service described in paragraph 5100.2(a), a sustainability assurance practitioner may be subject to certain professional and ethics standards as part of the practitioner’s profession or professional affiliation. Those standards might comprise provisions on topics also addressed in this Part. In that case, this Part and those other professional and ethics standards both apply to the practitioner.
- R5100.7** If there are circumstances where laws or regulations preclude a sustainability assurance practitioner from complying with certain provisions in this Part, those laws and regulations prevail, and the practitioner shall comply with all other provisions in this Part.
- 5100.7 A1 The principle of professional behaviour requires a sustainability assurance practitioner to comply with relevant laws and regulations. Some jurisdictions might have provisions that differ from or go beyond those set out in this Part. Practitioners in those jurisdictions need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.

Breaches of Part 5

- R5100.8** Paragraphs R5400.80 to R5400.89 and 5405.22 A1 to R5405.29 address a breach of independence requirements in this Part. A sustainability assurance practitioner who identifies a breach of any other provision in this Part shall evaluate the significance of the breach and its impact on the practitioner’s ability to comply with the fundamental principles. The practitioner shall also:
- (a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and

(b) Determine whether to report the breach to the relevant parties.

5100.8 A1 Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional or regulatory body or an oversight authority.

SECTION 5110

THE FUNDAMENTAL PRINCIPLES

General

5110.1 A1 There are five fundamental principles of ethics for sustainability assurance practitioners:

- (a) Integrity – to be straightforward and honest in all professional and business relationships.
- (b) Objectivity – to exercise professional or business ~~judgment~~judgement without being compromised by:
 - (i) Bias;
 - (ii) Conflict of interest; or
 - (iii) Undue influence of, or undue reliance on, individuals, organ~~iz~~isations, technology or other factors.
- (c) Professional Competence and Due Care – to:
 - (i) Attain and maintain professional knowledge and skill at the level required to ensure that a sustainability assurance client receives competent professional service, based on current technical and professional standards and relevant legislation; and
 - (ii) Act diligently and in accordance with applicable technical and professional standards.
- (d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.
- (e) Professional Behavior – to:
 - (i) Comply with relevant laws and regulations;
 - (ii) Behave in a manner consistent with acting in the public interest in all professional activities and business relationships relating to sustainability assurance clients; and
 - (iii) Avoid any conduct that the sustainability assurance practitioner knows or should know might affect public trust in sustainability information that is subject to assurance.

R5110.2 A sustainability assurance practitioner shall comply with each of the fundamental principles.

5110.2 A1 The fundamental principles of ethics establish the standard of behavior expected of a sustainability assurance practitioner. The conceptual framework establishes the approach which a practitioner is required to apply in complying with those fundamental principles. Subsections 5111 to 5115 set out requirements and application material in this Part related to each of the fundamental principles.

5110.2 A2 A sustainability assurance practitioner might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the practitioner might consider consulting, on an anonymous basis if necessary, with:

- Others within the firm.
- Those charged with governance.
- A professional body.
- A regulatory body.
- Legal counsel.

However, such consultation does not relieve the practitioner from the responsibility to exercise professional ~~judgment~~judgement to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

5110.2 A3 The sustainability assurance practitioner is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

SUBSECTION 5111 – INTEGRITY

R5111.1 A sustainability assurance practitioner shall comply with the principle of integrity, which requires a practitioner to be straightforward and honest in all professional and business relationships.

5111.1 A1 Integrity involves fair dealing, truthfulness and having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organ~~iz~~isational consequences.

5111.1 A2 Acting appropriately involves:

- (a) Standing one's ground when confronted by dilemmas and difficult situations; or
- (b) Challenging others as and when circumstances warrant, in a manner appropriate to the circumstances.

R5111.2 A sustainability assurance practitioner shall not knowingly be associated with reports, returns, communications or other information where the practitioner believes that the information:

- (a) Contains a materially false or misleading statement;
- (b) Contains statements or information provided recklessly; or
- (c) Omits or obscures required information where such omission or obscurity would be misleading.

5111.2 A1 If a sustainability assurance practitioner provides a modified report in respect of such a report, return, communication or other information, the practitioner is not in breach of paragraph R5111.2.

R5111.3 When a sustainability assurance practitioner becomes aware of having been associated with information described in paragraph R5111.2, the practitioner shall take steps to be disassociated from that information.

SUBSECTION 5112 – OBJECTIVITY

R5112.1 A sustainability assurance practitioner shall comply with the principle of objectivity, which requires a practitioner to exercise professional or business ~~judgment~~judgement without being compromised by:

- (a) Bias;
- (b) Conflict of interest; or
- (c) Undue influence of, or undue reliance on, individuals, organ~~iz~~isations, technology or other factors.

R5112.2 A sustainability assurance practitioner shall not undertake a professional activity for a sustainability assurance client if a circumstance or relationship unduly influences the practitioner's professional ~~judgment~~judgement regarding that activity.

SUBSECTION 5113 – PROFESSIONAL COMPETENCE AND DUE CARE

- R5113.1** A sustainability assurance practitioner shall comply with the principle of professional competence and due care, which requires a practitioner to:
- (a) Attain and maintain professional knowledge and skills at the level required to ensure that a sustainability assurance client receives competent professional service, based on current technical and professional standards and relevant legislation; and
 - (b) Act diligently and in accordance with applicable technical and professional standards.
- 5113.1 A1 Serving sustainability assurance clients with professional competence involves the exercise of sound ~~judgment~~judgement in applying professional knowledge and skill when undertaking professional activities.
- 5113.1 A2 The knowledge and skills necessary for a professional activity vary depending on the nature of the activity being undertaken. For example, in addition to the application of any technical knowledge relevant to the professional activity, interpersonal, communication and organizational skills facilitate the practitioner's interaction with entities and individuals with whom the practitioner interacts.
- 5113.1 A3 Maintaining professional competence requires a sustainability assurance practitioner to have a continuing awareness and understanding of technical, professional, business and technology-related developments relevant to the professional activities undertaken by the practitioner. Continuing professional development enables a practitioner to develop and maintain the capabilities to perform competently within the professional environment.
- 5113.1 A4 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.
- R5113.2** In complying with the principle of professional competence and due care, a sustainability assurance practitioner shall take reasonable steps to ensure that those working in a professional capacity under the practitioner's authority have appropriate training and supervision.
- R5113.3** Where appropriate, a sustainability assurance practitioner shall make sustainability assurance clients or other users of the practitioner's professional activities, aware of the limitations inherent in the activities and explain the implications of those limitations.

SUBSECTION 5114 – CONFIDENTIALITY

- R5114.1** A sustainability assurance practitioner shall comply with the principle of confidentiality, which requires a practitioner to respect the confidentiality of information acquired in the course of professional and business relationships. A practitioner shall:
- (a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;
 - (b) Maintain confidentiality of information within the firm;
 - (c) Maintain confidentiality of information disclosed by a prospective sustainability assurance client; and
 - (d) Take reasonable steps to ensure that personnel under the practitioner's control, and individuals from whom advice and assistance are obtained, comply with the practitioner's duty of confidentiality.
- 5114.1 A1 Maintaining the confidentiality of information acquired in the course of professional and business relationships involves the sustainability assurance practitioner taking appropriate action to protect

the confidentiality of such information in the course of its collection, use, transfer, storage or retention, dissemination and lawful destruction.

R5114.2 Subject to paragraph R5114.3, a sustainability assurance practitioner shall not:

- (a) Disclose confidential information acquired in the course of professional and business relationships;
- (b) Use confidential information acquired in the course of professional and business relationships for the advantage of the practitioner, the firm or a third party;
- (c) Use or disclose any confidential information, either acquired or received in the course of a professional or business relationship, after that relationship has ended; and
- (d) Use or disclose information in respect of which the duty of confidentiality applies notwithstanding that the information has become publicly available, whether properly or improperly.

R5114.3 As an exception to paragraph R5114.2, a sustainability assurance practitioner may disclose or use confidential information where:

- (a) There is a legal or professional duty or right to do so; or
- (b) This is authorised by the sustainability assurance client or any person with the authority to permit disclosure or use of the confidential information and this is not prohibited by law or regulation.

5114.3 A1 Confidentiality serves the public interest because it facilitates the free flow of information from the sustainability assurance client to the sustainability assurance practitioner in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where sustainability assurance practitioners might be required or have the duty or right to disclose confidential information:

- (a) Disclosure is required by law or regulation, for example:
 - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
 - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and
- (b) There is a professional duty or right to disclose or use, when not prohibited by law or regulation:
 - (i) To comply with the quality review, practice assessment or equivalent monitoring activity of a professional body;
 - (ii) To respond to an inquiry or investigation by a professional or regulatory body;
 - (iii) To protect the professional interests of a practitioner in legal proceedings; or
 - (iv) To comply with technical and professional standards, including ethics requirements.

NZ5114.3 A1.1 The circumstances in paragraph 5114.3 A1 do not take into account New Zealand legal and regulatory requirements. A sustainability assurance practitioner considering disclosing or using confidential information about a sustainability assurance client without their consent is advised to first obtain legal advice.

5114.3 A2 In deciding whether to disclose or use confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the sustainability assurance client authorizes the disclosure or use of information by the sustainability assurance practitioner.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose or use, the information include:
 - Unsubstantiated facts.
 - Incomplete information.
 - Unsubstantiated conclusions.
- The proposed means of communicating the information.
- Whether the parties to whom the information is to be provided or access is to be granted are appropriate recipients.
- Any applicable law or regulation (including those governing privacy) in a jurisdiction where disclosure might take place and, if different, the jurisdiction where the confidential information originates.

5114.3 A3 The circumstances in which a firm seeks authorization to use or disclose confidential information, include where the information is to be used for training purposes, in the development of products or technology, in research or as source material for industry or other benchmarking data or studies. Such authorization might be general in its application (for example, in relation to use of the information for internal training purposes or quality enhancement initiatives). When obtaining the authorization of the individual or entity that provided such information for use in specific circumstances, relevant considerations to be communicated (preferably in writing) might include:

- The nature of the information to be used or disclosed.
- The purpose for which the information is to be used or disclosed (for example, technology development, research or benchmarking data or studies).
- The individual or entity who will undertake the activity for which the information is to be used or disclosed.
- Whether the identity of the individual or entity that provided such information or any individuals or entities to which such information relates will be identifiable from the output of the activity for which the information is to be used or disclosed.

R5114.4 A sustainability assurance practitioner shall continue to comply with the principle of confidentiality even after the end of the relationship between the practitioner and a sustainability assurance client. When acquiring a new sustainability assurance client, the practitioner is entitled to use prior experience but shall not use or disclose any confidential information acquired or received in the course of a professional or business relationship.

SUBSECTION 5115 – PROFESSIONAL BEHAVIOUR

R5115.1 A sustainability assurance practitioner shall comply with the principle of professional behaviour, which requires a practitioner to:

- (a) Comply with relevant laws and regulations;

- (b) Behave in a manner consistent with acting in the public interest in all professional activities and business relationships relating to sustainability assurance clients; and
- (c) Avoid any conduct that the practitioner knows or should know might affect public trust in sustainability information that is subject to assurance.

A sustainability assurance practitioner shall not knowingly engage in any business, occupation or activity that impairs or might impair public trust in sustainability information that is subject to assurance, and as a result would be incompatible with the fundamental principles.

5115.1 A1 Conduct that might adversely affect public trust in sustainability information that is subject to assurance includes conduct that a reasonable and informed third party would be likely to conclude has such an effect.

R5115.2 When undertaking marketing or promotional activities, a sustainability assurance practitioner shall be honest and truthful and shall not make:

- (a) Exaggerated claims for the services offered by, or the qualifications or experience of, the practitioner; or
- (b) Disparaging references or unsubstantiated comparisons to the work of others.

5115.2 A1 If a sustainability assurance practitioner is in doubt about whether a form of advertising or marketing is appropriate, the practitioner is encouraged to consult with an appropriate body, for example a relevant professional or regulatory body, or obtain legal or other expert advice, as appropriate.

SECTION 5120 THE CONCEPTUAL FRAMEWORK

Introduction

- 5120.1 The circumstances in which sustainability assurance practitioners operate might create threats to compliance with the fundamental principles. Section 5120 sets out requirements and application material, including a conceptual framework, to assist practitioners in complying with the fundamental principles and acting in the public interest when performing sustainability assurance engagements. Such requirements and application material accommodate the wide range of facts and circumstances, including the various professional activities, interests and relationships, that create threats to compliance with the fundamental principles. In addition, they deter practitioners from concluding that a situation is permitted solely because that situation is not specifically prohibited by this Part.
- 5120.2 The conceptual framework specifies an approach for a sustainability assurance practitioner to:
- (a) Identify threats to compliance with the fundamental principles;
 - (b) Evaluate the threats identified; and
 - (c) Address the threats by eliminating or reducing them to an acceptable level.

Requirements and Application Material

General

- R5120.3** The sustainability assurance practitioner shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 5110.

[Paragraphs 5120.3 A1 and R5120.4 are intentionally left blank]

- R5120.5** When applying the conceptual framework, the sustainability assurance practitioner shall:
- (a) Have an inquiring mind;
 - (b) Exercise professional ~~judgment~~judgement; and
 - (c) Use the reasonable and informed third party test described in paragraph 5120.5 A9.

Having an Inquiring Mind

- 5120.5 A1 An inquiring mind is a prerequisite to obtaining an understanding of known facts and circumstances necessary for the proper application of the conceptual framework. Having an inquiring mind involves:
- (a) Considering the source, relevance and sufficiency of information obtained, taking into account the nature, scope and outputs of the professional activity being undertaken; and
 - (b) Being open and alert to a need for further investigation or other action.
- 5120.5 A2 When considering the source, relevance and sufficiency of information obtained, the sustainability assurance practitioner might consider, among other matters, whether:
- New information has emerged or there have been changes in facts and circumstances.
 - The information or its source might be influenced by bias or self-interest.
 - There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the practitioner.

- There is an inconsistency between the known facts and circumstances and the practitioner's expectations.
- The information provides a reasonable basis on which to reach a conclusion.
- There might be other reasonable conclusions that could be reached from the information obtained.

5120.5 A3 Paragraph R5120.5 requires all sustainability assurance practitioners to have an inquiring mind when identifying, evaluating and addressing threats to the fundamental principles. This prerequisite for applying the conceptual framework applies to all practitioners regardless of the professional activity undertaken. Under sustainability assurance standards, including those issued by the [IAASB New Zealand Auditing and Assurance Standards Board](#), practitioners are also required to exercise professional ~~skepticisms~~skepticism, which includes a critical assessment of evidence.

Exercising Professional ~~Judgment~~Judgement

5120.5 A4 Professional ~~judgment~~judgement involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved. For example, application of knowledge of certain location-specific environmental, social, economic, cultural or other sustainability-related issues might be relevant when performing sustainability assurance engagements.

5120.5 A5 Professional ~~judgment~~judgement is required when the sustainability assurance practitioner applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances. In making this determination, the practitioner might consider matters such as whether:

- The practitioner's expertise is sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise.
- The practitioner's own preconception or bias might be affecting the practitioner's exercise of professional ~~judgment~~judgement.

5120.5 A6 The circumstances in which sustainability assurance practitioners carry out professional activities and the factors involved vary considerably in their range and complexity. The professional ~~judgment~~judgement exercised by practitioners might need to take into account the complexity arising from the compounding effect of the interaction between, and changes in, elements of the facts and circumstances that are uncertain and variables and assumptions that are interconnected or interdependent.

5120.5 A7 Managing complexity involves:

- Making the firm and, if appropriate, relevant stakeholders aware of the inherent uncertainties or difficulties arising from the facts and circumstances. (Ref: Para. R5113.3)
- Being alert to any developments or changes in the facts and circumstances and assessing whether they might impact any ~~judgment~~judgements the sustainability assurance practitioner has made. (Ref: Para. R5120.5 to 5120.5 A3, and R5120.9 to 5120.9 A2)

5120.5 A8 Managing complexity might also involve:

- Analysing and investigating as relevant, any uncertain elements, the variables and assumptions and how they are connected or interdependent.

- Using technology to analyze relevant data to inform the sustainability assurance practitioner's ~~judgment~~judgement.
- Consulting with others, including experts, to ensure appropriate challenge and additional input as part of the evaluation process.

Reasonable and Informed Third Party

5120.5 A9 The reasonable and informed third party test is a consideration by the sustainability assurance practitioner about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the practitioner knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be a sustainability assurance practitioner, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the practitioner's conclusions in an impartial manner.

Identifying Threats

R5120.6 The sustainability assurance practitioner shall identify threats to compliance with the fundamental principles.

5120.6 A1 An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the sustainability assurance practitioner's identification of threats to such compliance. The existence of certain conditions, policies and procedures established by the practitioner's profession, legislation, regulation, or the firm that can enhance the practitioner acting ethically might also help identify threats to compliance with the fundamental principles. Paragraph 5120.8 A2 includes general examples of such conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats.

5120.6 A2 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.

5120.6 A3 Threats to compliance with the fundamental principles fall into one or more of the following categories:

- (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence a sustainability assurance practitioner's ~~judgment~~judgement or behavior;
- (b) Self-review threat – the threat that a sustainability assurance practitioner will not appropriately evaluate the results of a previous ~~judgment~~judgement made, or an activity performed by the practitioner or by another individual within the practitioner's firm, on which the practitioner will rely when forming a ~~judgment~~judgement as part of performing a current activity;
- (c) Advocacy threat – the threat that a sustainability assurance practitioner will promote a sustainability assurance client's position to the point that the practitioner's objectivity is compromised;
- (d) Familiarity threat – the threat that due to a long or close relationship with a sustainability assurance client, a sustainability assurance practitioner will be too sympathetic to their interests or too accepting of their work; and

- (e) Intimidation threat – the threat that a sustainability assurance practitioner will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the practitioner.

5120.6 A4 A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

Evaluating Threats

R5120.7 When the sustainability assurance practitioner identifies a threat to compliance with the fundamental principles, the practitioner shall evaluate whether such a threat is at an acceptable level.

Acceptable Level

5120.7 A1 An acceptable level is a level at which a sustainability assurance practitioner using the reasonable and informed third party test would likely conclude that the practitioner complies with the fundamental principles.

Factors Relevant in Evaluating the Level of Threats

5120.8 A1 The consideration of qualitative as well as quantitative factors is relevant in the sustainability assurance practitioner's evaluation of threats, as is the combined effect of multiple threats, if applicable.

5120.8 A2 The existence of conditions, policies and procedures described in paragraph 5120.6 A1 might also be factors that are relevant in evaluating the level of threats to compliance with the fundamental principles. Examples of such conditions, policies and procedures include:

- Corporate governance requirements.
- Educational, training and experience requirements.
- Effective complaint systems which enable the sustainability assurance practitioner and the general public to draw attention to unethical behaviour.
- An explicitly stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures.

Consideration of New Information or Changes in Facts and Circumstances

R5120.9 If the sustainability assurance practitioner becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the practitioner shall re-evaluate and address that threat accordingly.

5120.9 A1 Remaining alert throughout the professional activity assists the sustainability assurance practitioner in determining whether new information has emerged or changes in facts and circumstances have occurred that:

- (a) Impact the level of a threat; or
- (b) Affect the practitioner's conclusions about whether safeguards applied continue to be appropriate to address identified threats.

5120.9 A2 If new information results in the identification of a new threat, the sustainability assurance practitioner is required to evaluate and, as appropriate, address this threat. (Ref: Paras. R5120.7 and R5120.10).

Addressing Threats

R5120.10 If the sustainability assurance practitioner determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the practitioner shall address the threats by eliminating them or reducing them to an acceptable level. The practitioner shall do so by:

- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
- (b) Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or
- (c) Declining or ending the specific professional activity.

Actions to Eliminate Threats

5120.10 A1 Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level.

Safeguards

5120.10 A2 Safeguards are actions, individually or in combination, that the sustainability assurance practitioner takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

Consideration of Significant ~~Judgment~~Judgements Made and Overall Conclusions Reached

R5120.11 The sustainability assurance practitioner shall form an overall conclusion about whether the actions that the practitioner takes, or intends to take, to address the threats created will eliminate those threats or reduce them to an acceptable level. In forming the overall conclusion, the practitioner shall:

- (a) Review any significant ~~judgment~~judgements made or conclusions reached; and
- (b) Use the reasonable and informed third party test.

Other Considerations when Applying the Conceptual Framework

Bias

5120.12 A1 Conscious or unconscious bias affects the exercise of professional ~~judgment~~judgement when identifying, evaluating and addressing threats to compliance with the fundamental principles.

5120.12 A2 Examples of potential bias to be aware of when exercising professional ~~judgment~~judgement include:

- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.
- Automation bias, which is a tendency to ~~favor~~favour output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.
- Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.

- Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.
- Groupthink, which is a tendency for a group of individuals to discourage individual creativity and responsibility and as a result reach a decision without critical reasoning or consideration of alternatives.
- Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other ~~judgment~~judgements or decisions.
- Representation bias, which is a tendency to base an understanding on a pattern of experiences, events or beliefs that is assumed to be representative.
- Selective perception, which is a tendency for a person's expectations to influence how the person views a particular matter or person.

5120.12 A3 Actions that might mitigate the effect of bias include:

- Seeking advice from experts to obtain additional input.
- Consulting with others to ensure appropriate challenge as part of the evaluation process.
- Receiving training related to the identification of bias as part of professional development.

Firm Culture

5120.13 A1 The effective application of the conceptual framework by a sustainability assurance practitioner is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in this Part is promoted through the internal culture of the firm.

5120.13 A2 The promotion of an ethical culture within a firm is most effective when:

- (a) Leaders and those in managerial roles promote the importance of, and hold themselves and others accountable for demonstrating, the ethical values of the firm;
- (b) Appropriate education and training programs, management processes, and performance evaluation and reward criteria that promote an ethical culture are in place;
- (c) Effective policies and procedures are in place to encourage and protect those who report actual or suspected illegal or unethical behavior, including whistle-blowers; and
- (d) The firm adheres to ethical values in its dealings with third parties.

5120.13 A3 Sustainability assurance practitioners are expected to:

- (a) Encourage and promote an ethics-based culture in their firm, taking into account their position and seniority; and
- (b) Exhibit ethical behavior in dealings with individuals with whom, and entities with which, the practitioners or the firm has a professional or business relationship.

Considerations for Sustainability Assurance Engagements

Additional Consideration for Firm Culture

5120.14 A1 Quality management standards might address firm culture in the context of a firm's responsibilities to design, implement and operate a system of quality management for sustainability assurance. For example, ~~ISQM~~³ [Professional Ethical Standard 3³](#) requires the firm to establish a quality

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

objective that the firm demonstrates a commitment to quality through its culture, which recognises and reinforces, among others, the importance of professional ethics, values and attitudes.

Independence

5120.15 A1 Sustainability assurance practitioners are required by Sections 5400 to 5600 and Part 4B, as applicable, to be independent when performing sustainability assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional ~~judgment~~judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional ~~skepticism~~scepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or a sustainability assurance team member's integrity, objectivity or professional ~~skepticism~~scepticism has been compromised.

5120.15 A2 Sections 5400 to 5600 and Part 4B set out requirements and application material on how to apply the conceptual framework to maintain independence when performing sustainability assurance engagements. Sustainability assurance practitioners and firms are required to comply with these requirements and application material in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 5120.6 A3 are also the categories of threats to compliance with independence requirements.

5120.15 A3 Conditions, policies and procedures described in paragraphs 5120.6 A1 and 5120.8 A2 that might assist in identifying and evaluating threats to compliance with the fundamental principles might also be factors relevant to identifying and evaluating threats to independence. In the context of sustainability assurance engagements, a system of quality management designed, implemented and operated by a firm in accordance with the quality management standards issued by the New Zealand Auditing and Assurance Standards Board ~~IAASB~~ is an example of such conditions, policies and procedures.

Professional ~~Skepticism~~Scepticism

5120.16 A1 Under sustainability assurance standards, including those issued by the New Zealand Auditing and Assurance Standards Board ~~IAASB~~, sustainability assurance practitioners are required to exercise professional ~~skepticism~~scepticism when planning and performing sustainability assurance engagements. Professional ~~skepticism~~scepticism and the fundamental principles that are described in Section 5110 are inter-related concepts.

5120.16 A2 In a sustainability assurance engagement that is within the scope of the International Independence Standards (New Zealand) in this Part, compliance with the fundamental principles, individually and collectively, supports the exercise of professional ~~skepticism~~scepticism, as shown in the following examples:

- *Integrity* requires the sustainability assurance practitioner to be straightforward and honest. For example, the practitioner complies with the principle of integrity by:
 - Being straightforward and honest when raising concerns about a position taken by a sustainability assurance client.

- Pursuing inquiries about inconsistent information and seeking further evidence to address concerns about statements that might be materially false or misleading in order to make informed decisions about the appropriate course of action in the circumstances.
- Having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organisational consequences. Acting appropriately involves:
 - (a) Standing one's ground when confronted by dilemmas and difficult situations; or
 - (b) Challenging others as and when circumstances warrant,
 in a manner appropriate to the circumstances.

In doing so, the practitioner demonstrates the critical assessment of evidence that contributes to the exercise of professional ~~skepticism~~scepticism.

- *Objectivity* requires the sustainability assurance practitioner to exercise professional or business ~~judgment~~judgement without being compromised by:
 - (a) Bias;
 - (b) Conflict of interest; or
 - (c) Undue influence of, or undue reliance on, individuals, organisations, technology or other factors.

For example, the practitioner complies with the principle of objectivity by:

- (a) Recognising circumstances or relationships such as familiarity with the sustainability assurance client, that might compromise the practitioner's professional or business ~~judgment~~judgement; and
- (b) Considering the impact of such circumstances and relationships on the practitioner's ~~judgment~~judgement when evaluating the sufficiency and appropriateness of evidence related to a matter material to the client's sustainability information.

In doing so, the practitioner behaves in a manner that contributes to the exercise of professional ~~skepticism~~scepticism.

- *Professional competence and due care* requires the sustainability assurance practitioner to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations. For example, the practitioner complies with the principle of professional competence and due care by:
 - (a) Applying knowledge that is relevant to a particular sustainability assurance client's industry and business activities in order to properly identify risks of material misstatement;
 - (b) Designing and performing appropriate assurance procedures; and
 - (c) Applying relevant knowledge when critically assessing whether evidence is sufficient and appropriate in the circumstances.

In doing so, the practitioner behaves in a manner that contributes to the exercise of professional ~~skepticism~~scepticism.

SECTION 5270

PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

Introduction

- 5270.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5270.2 Pressure exerted on, or by, a sustainability assurance practitioner might create an intimidation or other threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- R5270.3** A sustainability assurance practitioner shall not:
- (a) Allow pressure from others to result in a breach of compliance with the fundamental principles; or
 - (b) Place pressure on others that the practitioner knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.
- 5270.3 A1 A sustainability assurance practitioner might face pressure that creates threats to compliance with the fundamental principles, for example an intimidation threat, when undertaking a professional activity for a sustainability assurance client. Pressure might be explicit or implicit and might come from:
- The sustainability assurance client.
 - Within the firm, for example, from a colleague or superior.
 - Another external organisation or individual such as a supplier, customer or lender of the sustainability assurance client or of the firm.
 - Internal or external targets and expectations.
- 5270.3 A2 Examples of pressure that might result in threats to compliance with the fundamental principles include:
- Pressure related to conflicts of interest:
 - Pressure from a family member bidding to act as a counterparty to a transaction involving a sustainability assurance client to select the family member over other counterparties.

See also Section 5310, *Conflicts of Interest*.
 - Pressure to act without sufficient expertise or due care:
 - Pressure from a sustainability assurance client to express an opinion on sustainability information that is not supported by the evidence obtained from the assurance procedures performed.
 - Pressure from a sustainability assurance client to inappropriately alter the scope of the sustainability assurance engagement to influence how the client's sustainability goals or practices are perceived.

- Pressure from a sustainability assurance client to deviate from the recommended approach when setting the scope of a voluntary sustainability assurance engagement.
- Pressure from a sustainability assurance client not to ~~inquire~~enquire about strategy-related assumptions used in the forward-looking information prepared by the client and subject to assurance procedures.
- Pressure from superiors to inappropriately reduce the extent of work performed.
- Pressure from superiors to perform a task without sufficient skills or training or within unrealistic deadlines.
- Pressure related to inducements:
 - Pressure from colleagues to accept a bribe or other inducement, for example to accept inappropriate gifts or entertainment from potential or existing sustainability assurance clients.

See also Section 5340, *Inducements, Including Gifts and Hospitality*.

- Pressure related to non-compliance with laws and regulations:
 - Pressure to overlook potential breaches of environmental or safety regulations applicable to a sustainability assurance client.

See also Section 5360, *Responding to Non-compliance with Laws and Regulations*.

- Pressure related to level of fees:
 - Pressure exerted by a superior or a colleague of a sustainability assurance practitioner to provide professional services at a fee level that does not allow for sufficient and appropriate resources (including human, technological and intellectual resources) to perform the services in accordance with technical and professional standards.

See also Section 5330, *Fees and Other Types of Remuneration*

5270.3 A3 Factors that are relevant in evaluating the level of threats created by pressure include:

- The intent of the individual who is exerting the pressure and the nature and extent of the pressure.
- The application of laws, regulations, and professional standards to the circumstances.
- The culture and leadership of the firm including the extent to which they reflect or emphasize the importance of ethical behaviour and the expectation that personnel will act ethically. For example, a corporate culture that tolerates unethical behaviour might increase the likelihood that the pressure would result in a threat to compliance with the fundamental principles.
- Policies and procedures, if any, that the firm has established, such as ethics or human resources policies that address pressure.

5270.3 A4 Discussing the circumstances creating the pressure and consulting with others about those circumstances might assist the sustainability assurance practitioner to evaluate the level of the threat. Such discussion and consultation, which requires being alert to the principle of confidentiality, might include:

- Discussing the matter with the individual who is exerting the pressure to seek to resolve it.
- Discussing the matter with the practitioner's superior, if the superior is not the individual exerting the pressure.

- Escalating the matter within the firm, including when appropriate, explaining any consequential risks to the firm, for example with:
 - Higher levels of management.
 - Internal or external auditors.
 - Those charged with governance.
- Disclosing the matter in line with the firm's policies, including ethics and whistleblowing policies, using any established mechanism, such as a confidential ethics hotline.
- Consulting with:
 - A colleague, superior, human resources personnel, or another sustainability assurance practitioner;
 - Relevant professional or regulatory bodies or industry associations; or
 - Legal counsel.

5270.3 A5 An example of an action that might eliminate threats created by pressure is the sustainability assurance practitioner's request for a restructure of, or segregation of, certain responsibilities and duties relating to the professional services performed for a sustainability assurance client so that the practitioner is no longer involved with the individual or entity exerting the pressure.

Documentation

5270.4 A1 The sustainability assurance practitioner is encouraged to document:

- The facts.
- The communications and parties with whom these matters were discussed.
- The courses of action considered.
- How the matter was addressed.

SECTION 5300

APPLYING THE CONCEPTUAL FRAMEWORK

Introduction

5300.1 Sections 5300 to 5390 set out requirements and application material for sustainability assurance practitioners when applying the conceptual framework set out in Section 5120. They do not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by practitioners, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires sustainability assurance practitioners to be alert for such facts and circumstances.

[Paragraphs 5300.2 and 5300.3 are intentionally left blank]

Requirements and Application Material

General

R5300.4 A sustainability assurance practitioner shall comply with the fundamental principles set out in Section 5110 and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to compliance with the fundamental principles.

[Paragraphs R5300.5 and 5300.5 A1 are intentionally left blank]

5300.5 A2 The more senior the position of a sustainability assurance practitioner, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the firm. To the extent that they are able to do so, taking into account their position and seniority in the firm, practitioners are expected to encourage and promote an ethics-based culture in the firm and exhibit ethical behaviour in dealings with individuals with whom, and entities with which, the practitioner or the firm has a professional or business relationship in accordance with paragraph 5120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Firm processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

(Ref: Paras. 5120.13 A1 to 5120.13 A3).

Identifying Threats

5300.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 5120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for a sustainability assurance practitioner when undertaking a professional service for a sustainability assurance client:

(a) Self-interest Threats

- A sustainability assurance practitioner having a direct financial interest in a sustainability assurance client.

- A sustainability assurance practitioner quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the professional service in accordance with applicable technical and professional standards for that price.
- A sustainability assurance practitioner having a close business relationship with a sustainability assurance client.
- A sustainability assurance practitioner having incentives linked to the outcome of a sustainability assurance engagement.
- A sustainability assurance practitioner discovering a significant error when evaluating the results of a previous professional service performed by a member of the practitioner's firm.

(b) Self-review Threats

- A sustainability assurance practitioner issuing an assurance report on the effectiveness of the operation of systems that generate sustainability information after designing or implementing the systems.
- A sustainability assurance practitioner having contributed to the preparation of data used to generate information that is subject to procedures in the sustainability assurance engagement.
- A sustainability assurance practitioner having provided sustainability-related services other than sustainability assurance engagements for an entity in a sustainability assurance client's value chain, the outcome of which is subject to procedures in the sustainability assurance engagement for the client.
- A sustainability assurance practitioner having provided a valuation or forecasting service the outcome of which is subject to procedures in the sustainability assurance engagement for the sustainability assurance client.

(c) Advocacy Threats

- A sustainability assurance practitioner promoting the interests of a sustainability assurance client.
- A sustainability assurance practitioner acting as an advocate on behalf of a sustainability assurance client in litigation or disputes with third parties.
- A sustainability assurance practitioner lobbying in ~~favor~~favor of legislation on behalf of a sustainability assurance client.
- A sustainability assurance practitioner promoting a particular sustainability-related initiative, product or service on behalf of a sustainability assurance client.

(d) Familiarity Threats

- A sustainability assurance practitioner having a close or immediate family member who is a director or officer of the sustainability assurance client.
- A director or officer of the sustainability assurance client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement leader.
- A sustainability assurance team member having a long association with the sustainability assurance client.

- An individual who is being considered to serve as an appropriate reviewer, as a safeguard to address a threat, having a close relationship with an individual who performed the work.
- (e) Intimidation Threats
- A sustainability assurance practitioner being threatened with dismissal from a professional service performed for a sustainability assurance client or the firm because of a disagreement about a professional matter.
 - A sustainability assurance practitioner feeling pressured to agree with the ~~judgment~~judgement of a sustainability assurance client because the client has more expertise on the matter in question.
 - A sustainability assurance practitioner being informed that a planned promotion will not occur unless the practitioner agrees with an inappropriate sustainability-related analysis or conclusion.
 - A sustainability assurance practitioner having accepted a significant gift from a sustainability assurance client and being threatened that acceptance of this gift will be made public.

Identifying Threats Associated with the Use of Technology

5300.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for a sustainability assurance practitioner when undertaking a professional activity for a sustainability assurance client:

- Self-interest Threats
 - The data available might not be sufficient for the effective use of the technology.
 - The technology might not be appropriate for the purpose for which it is to be used.
 - The practitioner might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.
- Self-review Threats
 - The technology was designed or developed using the knowledge, expertise or ~~judgment~~judgement of the practitioner or firm.

Evaluating Threats

5300.7 A1 The conditions, policies and procedures described in paragraphs 5120.6 A1 and 5120.8 A2 might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level. Such conditions, policies and procedures might relate to:

- (a) The sustainability assurance client and its operating environment; and
- (b) The firm and its operating environment.

5300.7 A2 The sustainability assurance practitioner's evaluation of the level of a threat is also impacted by the nature and scope of the professional service.

The Sustainability Assurance Client and its Operating Environment

5300.7 A3 The sustainability assurance practitioner's evaluation of the level of a threat might be impacted by whether the client is a sustainability assurance client:

- (a) For which the practitioner performs a sustainability assurance engagement within the scope of the International Independence Standards [\(New Zealand\)](#) in this Part;
- (b) For which the practitioner also performs an audit engagement;
- (c) For which other assurance or non-assurance services are also provided and, if so, the nature of those services; or
- (c) Which is a public interest entity.

For example, providing a non-assurance service to a sustainability assurance client that is a public interest entity might be perceived to result in a higher level of threat to compliance with the principle of objectivity with respect to the sustainability assurance engagement.

5300.7 A4 The corporate governance structure, including the leadership of a sustainability assurance client, might promote compliance with the fundamental principles. Accordingly, a sustainability assurance practitioner's evaluation of the level of a threat might also be impacted by a client's operating environment. For example:

- The client requires appropriate individuals other than management to ratify or approve the appointment of a firm to perform an engagement.
- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that facilitate objective choices in tendering non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

5300.7 A4a The sustainability assurance practitioner's evaluation of the level of a threat might be impacted by the quantitative and qualitative characteristics of a sustainability assurance client's value chain. For example, the evaluation of a threat to compliance with the principle of professional competence and due care might be impacted if the sustainability information that is subject to assurance comes from multiple suppliers that are geographically dispersed or is prepared in accordance with different reporting frameworks.

The Firm and its Operating Environment

5300.7 A5 A sustainability assurance practitioner's evaluation of the level of a threat might be impacted by the work environment within the practitioner's firm and its operating environment. For example:

- Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that sustainability assurance team members will act in the public interest when providing sustainability assurance.
- Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.
- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.
- Management of the reliance on revenue received from a single sustainability assurance client.
- The engagement leader having authority within the firm for decisions concerning compliance with the fundamental principles, including any decisions about accepting or providing services to a sustainability assurance client.

- Educational, training and experience requirements.
- Processes to facilitate and address internal and external concerns or complaints.

5300.7 A6 The sustainability assurance practitioner's evaluation of the level of a threat associated with the use of technology might also be impacted by the work environment within the practitioner's firm and its operating environment. For example:

- Level of corporate oversight and internal controls over the technology.
- Assessments of the quality and functionality of technology that are undertaken by a third-party.
- Training that is provided regularly to all relevant employees so they obtain and maintain the professional competence to sufficiently understand, use and explain the technology and its appropriateness for the purpose intended.

Consideration of New Information or Changes in Facts and Circumstances

5300.7 A7 New information or changes in facts and circumstances might:

- (a) Impact the level of a threat; or
- (b) Affect the sustainability assurance practitioner's conclusions about whether safeguards applied continue to address identified threats as intended.

In these situations, actions that were already implemented as safeguards might no longer be effective in addressing threats. Accordingly, the application of the conceptual framework requires that the sustainability assurance practitioner re-evaluate and address the threats accordingly. (Ref: Paras. R5120.9 and R5120.10).

5300.7 A8 Examples of new information or changes in facts and circumstances that might impact the level of a threat include:

- When the scope of a professional service is expanded.
- When the sustainability assurance client becomes a publicly traded entity or acquires another business unit.
- When the firm merges with another firm.
- When the sustainability assurance practitioner is jointly engaged by a sustainability assurance client and another client and a dispute emerges between the two clients.
- When there is a change in the sustainability assurance practitioner's personal or immediate family relationships.

Addressing Threats

5300.8 A1 Paragraphs R5120.10 to 5120.10 A2 set out requirements and application material for addressing threats that are not at an acceptable level.

Examples of Safeguards

5300.8 A2 Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:

- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.

- Having an appropriate reviewer who was not a member of the team review the work performed or advise as necessary might address a self-review threat.
- Using different leaders and teams with separate reporting lines for the provision of non-assurance services to a sustainability assurance client might address self-review, advocacy or familiarity threats.
- Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy, familiarity or intimidation threats.
- Disclosing to sustainability assurance clients any referral fees or commission arrangements received for recommending services or products might address a self-interest threat.
- Separating teams when dealing with matters of a confidential nature might address a self-interest threat.

5300.8 A3 The remaining sections of this Part describe certain threats that might arise during the course of performing professional services for sustainability assurance clients and include examples of actions that might address threats.

Appropriate Reviewer

5300.8 A4 An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided to a sustainability assurance client. Such an individual might be a sustainability assurance practitioner.

Communicating with Those Charged with Governance

R5300.9 When communicating with those charged with governance in accordance with this Part, a sustainability assurance practitioner shall determine the appropriate individual(s) within the sustainability assurance client's governance structure with whom to communicate. If the practitioner communicates with a subgroup of those charged with governance, the practitioner shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

5300.9 A1 In determining with whom to communicate, a sustainability assurance practitioner might consider:

- (a) The nature and importance of the circumstances; and
- (b) The matter to be communicated.

5300.9 A2 Examples of a subgroup of those charged with governance include an audit committee or another committee tasked with oversight of sustainability information, or an individual member of those charged with governance.

R5300.10 If a sustainability assurance practitioner communicates with individuals who have management responsibilities as well as governance responsibilities, the practitioner shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the practitioner would otherwise communicate.

5300.10 A1 In some circumstances, all of those charged with governance are involved in managing the sustainability assurance client, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated to individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the sustainability assurance practitioner has satisfied the requirement to communicate with those charged with governance.

Using Non-Assurance Work of Another Practitioner

R5300.11 A sustainability assurance practitioner who intends to use non-assurance work performed by another practitioner for purposes of a sustainability assurance engagement shall exercise professional ~~judgment~~judgement to determine the appropriate steps to take, if any, in order to fulfil the sustainability assurance practitioner's responsibilities to comply with the fundamental principles of integrity, objectivity and professional competence and due care.

5300.11 A1 For the purposes of this section, the non-assurance work performed by another practitioner excludes the work of an external expert. When a sustainability assurance practitioner intends to use the work of an external expert, the requirements and application material set out in Section 5390 apply. When a sustainability assurance practitioner intends to use assurance work performed by another practitioner for purposes of a sustainability assurance engagement, the requirements and application material set out in Section 5406 apply.

5300.11 A2 Factors to consider in determining the appropriate steps to take, if any, when a sustainability assurance practitioner intends to use the non-assurance work of another practitioner include:

- The reputation and competence of, and resources available to, that other practitioner.
- Whether that other practitioner is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, that other practitioner.

SECTION 5310 CONFLICTS OF INTEREST

Introduction

- 5310.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5310.2 A conflict of interest creates threats to compliance with the principle of objectivity and might create threats to compliance with the other fundamental principles. Such threats might be created when:
- (a) A sustainability assurance practitioner provides a professional service related to a particular matter for a sustainability assurance client and another client whose interests with respect to that matter are in conflict; or
 - (b) The interests of a sustainability assurance practitioner with respect to a particular matter and the interests of the sustainability assurance client for whom the practitioner provides a professional service related to that matter are in conflict.
- 5310.3 This section sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest. When a sustainability assurance practitioner performs a sustainability assurance engagement, independence is also required in accordance with this Part or Part 4B, as applicable.

Requirements and Application Material

General

- R5310.4** A sustainability assurance practitioner shall not allow a conflict of interest to compromise professional or business ~~judgment~~judgement.
- 5310.4 A1 Examples of circumstances that might create a conflict of interest include:
- Providing a transaction advisory service to a client seeking to acquire a sustainability assurance client, where the firm has obtained confidential information during the course of the sustainability assurance engagement that might be relevant to the transaction.
 - Providing advice to a sustainability assurance client and another client at the same time where the clients are competing to acquire the same company and the advice might be relevant to the parties' competitive positions.
 - Representing a sustainability assurance client and another client in the same matter who are in a legal dispute with each other.
 - Advising a sustainability assurance client to invest in a business in which, for example, the spouse of the practitioner has a financial interest.
 - Providing strategic advice to a sustainability assurance client on its competitive position while having a joint venture or similar interest with a major competitor of the client.
 - Advising a sustainability assurance client on acquiring a business which the firm is also interested in acquiring.
 - Advising a sustainability assurance client on buying a product or service while having a royalty or commission agreement with a potential seller of that product or service.

Conflict Identification

General

R5310.5 Before accepting a new sustainability assurance client relationship, engagement, or business relationship, a sustainability assurance practitioner shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying:

- (a) The nature of the relevant interests and relationships between the parties involved; and
- (b) The service and its implication for relevant parties.

5310.5 A1 An effective conflict identification process assists a sustainability assurance practitioner when taking reasonable steps to identify interests and relationships that might create an actual or potential conflict of interest, both before determining whether to accept an engagement and throughout the engagement. Such a process includes considering matters identified by external parties, for example clients or potential clients. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of the practitioner being able to address threats created by the conflict of interest.

5310.5 A2 An effective process to identify actual or potential conflicts of interest will take into account factors such as:

- The nature of the professional services provided.
- The size of the firm.
- The size and nature of the client base.
- The structure of the firm, for example, the number and geographic location of offices.

5310.5 A3 More information on client acceptance is set out in Section 5320, *Professional Appointments*.

Changes in Circumstances

R5310.6 A sustainability assurance practitioner shall remain alert to changes over time in the nature of services, interests and relationships that might create a conflict of interest while performing an engagement.

5310.6 A1 The nature of services, interests and relationships might change during the engagement. This is particularly true when a sustainability assurance practitioner is asked to conduct an engagement in a situation that might become adversarial, even though the parties who engage the practitioner initially might not be involved in a dispute.

Network Firms

R5310.7 If the firm is a member of a network, a sustainability assurance practitioner shall consider conflicts of interest that the practitioner has reason to believe might exist or arise due to interests and relationships of a network firm.

5310.7 A1 Factors to consider when identifying interests and relationships involving a network firm include:

- The nature of the professional services provided.
- The clients served by the network.
- The geographic locations of all relevant parties.

Threats Created by Conflicts of Interest

5310.8 A1 In general, the more direct the connection between the professional service and the matter on which the parties' interests conflict, the more likely the level of the threat is not at an acceptable level.

5310.8 A2 Factors that are relevant in evaluating the level of a threat created by a conflict of interest include measures that prevent unauthorized disclosure of confidential information when performing professional services related to a particular matter for a sustainability assurance client and another client whose interests with respect to that matter are in conflict. These measures include:

- The existence of separate practice areas for specialty functions within the firm, which might act as a barrier to the passing of confidential client information between practice areas.
- Policies and procedures to limit access to client files.
- Confidentiality agreements signed by personnel and leaders of the firm.
- Separation of confidential information physically and electronically.
- Specific and dedicated training and communication.

5310.8 A3 Examples of actions that might be safeguards to address threats created by a conflict of interest include:

- Having separate teams who are provided with clear policies and procedures on maintaining confidentiality.
- Having an appropriate reviewer, who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key ~~judgment~~judgements and conclusions are appropriate.

Disclosure and Consent

General

R5310.9 A sustainability assurance practitioner shall exercise professional ~~judgment~~judgement to determine whether the nature and significance of a conflict of interest are such that specific disclosure and explicit consent are necessary when addressing the threat created by the conflict of interest.

NZ R5310.9.1 If an assurance practitioner has a conflict of interest but can apply safeguards to eliminate the threat or reduce it to an acceptable level, the sustainability assurance practitioner shall disclose, in writing, the nature of the conflict of interest and related safeguards, if any, to all clients or potential clients affected by the conflict.

NZ R5310.9.2 When safeguards are required to reduce the threat to an acceptable level, the sustainability assurance practitioner shall obtain, in writing, the client's' consent to the sustainability assurance practitioner performing the sustainability assurance services.

5310.9 A1 Factors to consider when determining whether specific disclosure and explicit consent are necessary include:

- The circumstances creating the conflict of interest.
- The parties that might be affected.
- The nature of the issues that might arise.
- The potential for the particular matter to develop in an unexpected manner.

5310.9 A2 Disclosure and consent might take different forms, for example:

- General disclosure to clients of circumstances where, as is common commercial practice, the sustainability assurance practitioner does not provide professional services exclusively to any one client (for example, in a particular professional service and market sector). This enables the client to provide general consent accordingly. For example, a practitioner might make general disclosure in the standard terms and conditions for the engagement.
- Specific disclosure to affected clients of the circumstances of the particular conflict in sufficient detail to enable the client to make an informed decision about the matter and to provide explicit consent accordingly. Such disclosure might include a detailed presentation of the circumstances and a comprehensive explanation of any planned safeguards and the risks involved. Consent might be implied by clients' conduct in circumstances where the sustainability assurance practitioner has sufficient evidence to conclude that clients know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.

5310.9 A3 ~~[Deleted by the NZAuASB. Refer NZ R5310.9.1 and NZ R5310.9.2] It is generally necessary:~~

- ~~(a) To disclose the nature of the conflict of interest and how any threats created were addressed to clients affected by a conflict of interest; and~~
- ~~(b) To obtain consent of the affected clients to perform the professional services when safeguards are applied to address the threat.~~

5310.9 A4 ~~[Deleted by the NZAuASB. Refer NZ R310.9.1 and NZ R310.9.2] If such disclosure or consent is not in writing, the sustainability assurance practitioner is encouraged to document:~~

- ~~(a) The nature of the circumstances giving rise to the conflict of interest;~~
- ~~(b) The safeguards applied to address the threats when applicable; and~~
- ~~(c) The consent obtained.~~

When Explicit Consent is Refused

R5310.10 If a sustainability assurance practitioner has determined that explicit consent is necessary in accordance with paragraph R5310.9 and the sustainability assurance client has refused to provide consent, the practitioner shall either:

- (a) End or decline to perform professional services that would result in the conflict of interest; or
- (b) End relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level.

Confidentiality

General

R5310.11 A sustainability assurance practitioner shall remain alert to the principle of confidentiality, including when making disclosures or sharing information within the firm or network and seeking guidance from third parties.

5310.11 A1 Subsection 5114 sets out requirements and application material relevant to situations that might create a threat to compliance with the principle of confidentiality.

When Disclosure to Obtain Consent would Breach Confidentiality

R5310.12 ~~[Deleted by the NZAuASB. Refer to NZ R5310.12.1] When making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality, and such consent cannot therefore be obtained, the firm shall only accept or continue an engagement if:~~

NZ R310.12.1 ~~In those circumstances where adequate disclosure is not possible by reason of constraints of confidentiality, the assurance practitioner shall end or decline the relevant assurance engagement.~~ ~~(a) — The firm does not act in an advocacy role for a sustainability assurance client in an adversarial position against another client in the same matter;~~

~~(b) — Specific measures are in place to prevent disclosure of confidential information between the teams serving the sustainability assurance client and the other client; and~~

~~(c) — The firm is satisfied that a reasonable and informed third party would be likely to conclude that it is appropriate for the firm to accept or continue the engagement because a restriction on the firm's ability to provide the professional service would produce a disproportionate adverse outcome for the clients or other relevant third parties.~~

5310.12 A1 ~~[Deleted by the NZAuASB. Refer to NZ R310.12.1] A breach of confidentiality might arise, for example, when seeking consent to perform:~~

~~A transaction-related service for a sustainability assurance client in a hostile takeover of another client of the firm.~~

~~A forensic investigation for a client regarding a suspected fraud, where the firm has confidential information from its work for a sustainability assurance client who might be involved in the fraud.~~

Documentation

R5310.13 ~~[Deleted by the NZAuASB.] In the circumstances set out in paragraph R5310.12, the sustainability assurance practitioner shall document:~~

~~(a) — The nature of the circumstances, including the role that the practitioner is to undertake;~~

~~(b) — The specific measures in place to prevent disclosure of information between the teams serving the sustainability assurance client and the other client; and~~

~~(c) — Why it is appropriate to accept or continue the engagement.~~

SECTION 5320

PROFESSIONAL APPOINTMENTS

Introduction

- 5320.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5320.2 Acceptance of a new sustainability assurance client relationship or changes in an existing engagement might create a threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Client and Engagement Acceptance

General

- 5320.3 A1 Threats to compliance with the principles of integrity or professional behavior might be created, for example, from questionable issues associated with the sustainability assurance client (its owners, management or activities). Issues that, if known, might create such a threat include client involvement in illegal activities, dishonesty, questionable financial or non-financial, including sustainability, reporting practices or other unethical behavior.
- 5320.3 A2 Factors that are relevant in evaluating the level of such a threat include:
- Knowledge and understanding of the sustainability assurance client, its owners, management and those charged with governance and business activities.
 - The sustainability assurance client's commitment to address questionable issues, for example, through improving corporate governance practices or internal controls.
- 5320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the team does not possess, or cannot acquire, the competencies to perform the professional services.
- 5320.3 A4 Factors that are relevant in evaluating the level of such a threat include:
- An appropriate understanding of:
 - The nature of the sustainability assurance client's business;
 - The complexity of its operations;
 - The quantitative and qualitative characteristics of the sustainability assurance client's value chain;
 - The requirements of the engagement; and
 - The purpose, nature and scope of the work to be performed.
 - Knowledge of relevant industries or subject matter.
 - Experience with relevant regulatory or reporting requirements.
 - Policies and procedures that the firm has implemented, as part of a system of quality management in accordance with quality management standards such as [ISQM 4](#) [Professional Ethical Standard 3](#), that respond to quality risks relating to the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.

- The level of fees and the extent to which they have regard to the resources required, taking into account the sustainability assurance practitioner's commercial and market priorities.

5320.3 A5 Examples of actions that might be safeguards to address a self-interest threat include:

- Assigning sufficient engagement personnel with the necessary competencies.
- Agreeing on a realistic time frame for the performance of the engagement.
- Using experts where necessary.

Changes in a Professional Appointment

General

R5320.4 A sustainability assurance practitioner shall determine whether there are any reasons for not accepting an engagement when the practitioner:

- (a) Is asked by a potential sustainability assurance client to replace another sustainability assurance practitioner;
- (b) Considers tendering for an engagement held by a different practitioner for a sustainability assurance client; or
- (c) Considers undertaking work for a sustainability assurance client that is complementary or additional to that of a different practitioner.

5320.4 A1 There might be reasons for not accepting an engagement. One such reason might be if a threat created by the facts and circumstances cannot be addressed by applying safeguards. For example, there might be a self-interest threat to compliance with the principle of professional competence and due care if a sustainability assurance practitioner accepts the engagement before knowing all the relevant facts.

5320.4 A2 If a sustainability assurance practitioner is asked by a sustainability assurance client to undertake work that is complementary or additional to the work of an existing or predecessor practitioner, a self-interest threat to compliance with the principle of professional competence and due care might be created, for example, as a result of incomplete information.

5320.4 A3 A factor that is relevant in evaluating the level of such a threat is whether tenders state that, before accepting the engagement, contact with the existing or predecessor practitioner will be requested. This contact gives the proposed practitioner the opportunity to ~~inquire~~enquire whether there are any reasons why the engagement should not be accepted.

5320.4 A4 Examples of actions that might be safeguards to address such a self-interest threat include:

- Asking the existing or predecessor practitioner to provide any known information of which, in the existing or predecessor practitioner's opinion, the proposed practitioner needs to be aware before deciding whether to accept the engagement. For example, inquiry might reveal previously undisclosed pertinent facts and might indicate disagreements with the existing or predecessor practitioner that might influence the decision to accept the appointment.
- Obtaining information from other sources such as through inquiries of third parties or background investigations regarding senior management or those charged with governance of the sustainability assurance client.

Communicating with the Existing or Predecessor Practitioner

5320.5 A1 A proposed practitioner will usually need the sustainability assurance client's permission, preferably in writing, to initiate discussions with the existing or predecessor practitioner.

R5320.6 If unable to communicate with the existing or predecessor practitioner, the proposed practitioner

shall take other reasonable steps to obtain information about any possible threats.

Communicating with the Proposed Practitioner

R5320.7 When an existing or predecessor practitioner is asked to respond to a communication from a proposed practitioner, the existing or predecessor practitioner shall:

- (a) Comply with relevant laws and regulations governing the request; and
- (b) Provide any information honestly and unambiguously.

5320.7 A1 An existing or predecessor practitioner is bound by confidentiality. Whether the existing or predecessor practitioner is permitted or required to discuss the affairs of a sustainability assurance client with a proposed practitioner will depend on the nature of the engagement and:

- (a) Whether the existing or predecessor practitioner has permission from the sustainability assurance client for the discussion; and
- (b) The legal and ethics requirements relating to such communications and disclosure, which might vary by jurisdiction.

5320.7 A2 Circumstances where a sustainability assurance practitioner is or might be required to disclose confidential information, or when disclosure might be appropriate, are set out in paragraph 5114.3 A1.

Changes in Sustainability Assurance Appointments

R5320.8 In the case of a sustainability assurance engagement within the scope of the International Independence Standards ([New Zealand](#)) in this Part, a sustainability assurance practitioner shall request the existing or predecessor practitioner to provide known information regarding any facts or other information of which, in the existing or predecessor practitioner's opinion, the proposed practitioner needs to be aware before deciding whether to accept the engagement. Except for the circumstances involving non-compliance or suspected non-compliance with laws and regulations set out in paragraphs R5360.21 and R5360.22:

- (a) If the sustainability assurance client consents to the existing or predecessor practitioner disclosing any such facts or other information, the existing or predecessor practitioner shall provide the information honestly and unambiguously; and
- (b) If the sustainability assurance client fails or refuses to grant the existing or predecessor practitioner permission to discuss the client's affairs with the proposed practitioner, the existing or predecessor practitioner shall disclose this fact to the proposed practitioner, who shall carefully consider such failure or refusal when determining whether to accept the appointment.

Client and Engagement Continuance

R5320.9 For a recurring engagement for a sustainability assurance client, a sustainability assurance practitioner shall periodically review whether to continue with the engagement.

5320.9 A1 Potential threats to compliance with the fundamental principles might be created after acceptance which, had they been known earlier, would have caused the sustainability assurance practitioner to decline the engagement. For example, a self-interest threat to compliance with the principle of integrity might be created by improper sustainability reporting, such as changes in measurement methodology to create the appearance of a positive trend in a key performance indicator.

Using the Work of an Expert

R5320.10 When a sustainability assurance practitioner intends to use the work of an expert in the course of undertaking a professional activity, the practitioner shall determine whether the use is appropriate

for the intended purpose.

5320.10 A1 For the purposes of this section, the work of an external expert is excluded. When a sustainability assurance practitioner intends to use the work of an external expert, the requirements and application material set out in Section 5390 apply.

5320.10 A2 Factors to consider when a sustainability assurance practitioner intends to use the work of an expert include:

- The reputation and expertise of, and the resources available to, the expert.
- Whether the expert is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the expert.

Using the Output of Technology

R5320.11 When a sustainability assurance practitioner intends to use the output of technology in the course of undertaking a professional activity for a sustainability assurance client, the practitioner shall determine whether the use is appropriate for the intended purpose.

5320.11 A1 Factors to consider when a sustainability assurance practitioner intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output of the technology.
- Whether the practitioner has the ability, or access to an expert with the ability, to understand, use and explain the technology and its appropriateness for the purpose intended.
- Whether the technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The firm's oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorizing user access to the technology and overseeing such use.
- The appropriateness of the inputs to the technology, including data and any related decisions, and decisions made by individuals in the course of using the technology.

Other Considerations

5320.12 A1 When a sustainability assurance practitioner is considering using the work of experts or the output of technology, a consideration is whether the practitioner is in a position within the firm to obtain information in relation to the factors necessary to determine whether such use is appropriate.

SECTION 5325

OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS

Introduction

- 5325.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5325.2 Appointing an engagement quality reviewer who has involvement in the work being reviewed or close relationships with those responsible for performing that work might create threats to compliance with the principle of objectivity.
- 5325.3 This section sets out specific application material relevant to applying the conceptual framework in relation to the objectivity of an engagement quality reviewer for a sustainability assurance client.
- 5325.4 An engagement quality reviewer is also an example of an appropriate reviewer as described in paragraph 5300.8 A4. Therefore, the application material in this section might apply in circumstances where a sustainability assurance practitioner appoints an appropriate reviewer to review work performed as a safeguard to address identified threats.

Application Material

General

- 5325.5 A1 Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. For example, ~~ISQM 1~~ [Professional Ethical Standard 3](#) establishes the firm's responsibilities for its system of quality management and requires the firm to design and implement responses to address quality risks related to engagement performance. Such responses include establishing policies or procedures addressing engagement quality reviews in accordance with ~~ISQM 2~~ [Professional Ethical Standard 4](#)⁴.
- 5325.5 A2 An engagement quality reviewer is a leader, partner, or other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.

Identifying Threats

- 5325.6 A1 The following are examples of circumstances where threats to the objectivity of an individual appointed as an engagement quality reviewer might be created:
- (a) Self-interest threat
 - Two engagement leaders each serving as an engagement quality reviewer for the other's engagement.
 - (b) Self-review threat
 - An individual serving as an engagement quality reviewer on a sustainability assurance engagement after previously serving as the engagement leader.
 - (c) Familiarity threat
 - An individual serving as an engagement quality reviewer has a close relationship with or is an immediate family member of another individual who is involved in the engagement.

⁴ [Professional and Ethical Standard 4, Engagement Quality Reviews](#)

(d) Intimidation threat

- An individual serving as an engagement quality reviewer for an engagement has a direct reporting line to the leader responsible for the engagement.

Evaluating Threats

5325.7 A1 Factors that are relevant in evaluating the level of threats to the objectivity of an individual appointed as an engagement quality reviewer include:

- The role and seniority of the individual.
- The nature of the individual's relationship with others involved on the engagement.
- The length of time the individual was previously involved with the engagement and the individual's role.
- When the individual was last involved in the engagement prior to being appointed as engagement quality reviewer and any subsequent relevant changes to the circumstances of the engagement.
- The nature and complexity of issues that required significant ~~judgment~~judgement from the individual in any previous involvement in the engagement.

Addressing Threats

5325.8 A1 An example of an action that might eliminate an intimidation threat is reassigning reporting responsibilities within the firm.

5325.8 A2 An example of an action that might be a safeguard to address a self-review threat is implementing a period of sufficient duration (a cooling-off period) before the individual who was on the engagement is appointed as an engagement quality reviewer.

Cooling-off Period

5325.8 A3 Quality management standards might require the firm to establish policies or procedures that specify, as a condition for eligibility, a cooling-off period before the engagement leader can assume the role of engagement quality reviewer. This serves to enable compliance with the principle of objectivity and the consistent performance of quality engagements. For example, [ISQM-2 Professional Ethical Standard 4](#) requires a cooling-off period of two years.

5325.8 A4 The cooling-off period that might be required by quality management standards such as [ISQM-2 Professional Ethical Standard 4](#) is distinct from, and does not modify, the leader rotation requirements in Section 5540, which are designed to address threats to independence created by long association with a sustainability assurance client.

SECTION 5330

FEES AND OTHER TYPES OF REMUNERATION

Introduction

- 5330.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5330.2 The level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Application Material

Level of Fees

- 5330.3 A1 The level of fees might impact a sustainability assurance practitioner's ability to perform professional services for sustainability assurance clients in accordance with technical and professional standards.
- 5330.3 A2 A sustainability assurance practitioner might quote whatever fee is considered appropriate. Quoting a fee lower than a different practitioner is not in itself unethical. However, the level of fees quoted creates a self-interest threat to compliance with the principle of professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards.
- 5330.3 A3 Factors that are relevant in evaluating the level of such a threat include:
- Whether the sustainability assurance client is aware of the terms of the engagement and, in particular, the basis on which fees are determined and which professional services are covered.
 - Whether the level of the fee is set by an independent third party such as a regulatory body.
- 5330.3 A4 Examples of actions that might be safeguards to address such a self-interest threat include:
- Adjusting the level of fees or the scope of the engagement.
 - Having an appropriate reviewer review the work performed.

Contingent Fees

- 5330.4 A1 Contingent fees are used for certain types of non-assurance services. However, contingent fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances.
- 5330.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The nature of the engagement.
 - The range of possible fee amounts.
 - The basis or metrics for determining the fee.
 - Disclosure to intended users of the work performed by the sustainability assurance practitioner and the basis of remuneration.
 - Quality management policies and procedures.
 - Whether an independent third party is to review the outcome or result of the work.
 - Whether the level of the fee is set by an independent third party such as a regulatory body.

- 5330.4 A3 Examples of actions that might be safeguards to address such a self-interest threat include:
- Having an appropriate reviewer who was not involved in performing the service review the work performed by the sustainability assurance practitioner.
 - Obtaining an advance written agreement with the sustainability assurance client on the basis of remuneration.
- 5330.4 A4 Requirements and application material related to contingent fees for services provided to sustainability assurance clients are set out in Section 5410 and Section 905.

Referral Fees or Commissions

NZ R5330.5 A sustainability assurance practitioner shall not accept or pay referral fees, commissions or other similar benefits in connection with a sustainability assurance engagement.

- 5330.5 A1 ~~[Deleted by the NZAuASB. Refer to NZ R5330.5 and NZ 5330.5 A1.1] A self-interest threat to compliance with the principles of objectivity and professional competence and due care is created if a sustainability assurance practitioner pays or receives a referral fee or receives a commission relating to a sustainability assurance client. Such referral fees or commissions include, for example:~~

~~A fee paid to a third party for that party referring a sustainability assurance client to the practitioner.~~

~~A fee received from a third party for the practitioner referring a continuing sustainability assurance client to that party.~~

~~A commission received from a third party (for example, a software vendor) in connection with the sale of goods or services to a sustainability assurance client.~~

NZ 5330.5 A1.1 ~~The receipt or payment of referral fees, commissions or other similar benefits in connection with a sustainability assurance engagement creates a threat to independence that no safeguards could reduce to an acceptable level.~~

- 5330.5 A2 ~~[Deleted by the NZAuASB. Refer to NZ R5330.5 and NZ 5330.5 A1.1] Examples of actions that might be safeguards to address such a self-interest threat include:~~

~~Obtaining an advance agreement from the sustainability assurance client for commission arrangements in connection with the sale by another party of goods or services to the client might address a self-interest threat.~~

~~Disclosing to sustainability assurance clients any referral fees or commission arrangements paid to, or received from, another sustainability assurance practitioner or third party for recommending services or products might address a self-interest threat.~~

Purchase or Sale of a Firm

- 5330.6 A1 A sustainability assurance practitioner may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not referral fees or commissions for the purposes of this section.

SECTION 5340

INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY

Introduction

- 5340.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5340.2 Offering or accepting inducements might create a self-interest, familiarity or intimidation threat to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional behaviour.
- 5340.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of inducements when performing professional services for sustainability assurance clients that does not constitute non-compliance with laws and regulations. This section also requires a sustainability assurance practitioner to comply with relevant laws and regulations when offering or accepting inducements.

Requirements and Application Material

General

- 5340.4 A1 An inducement is an object, situation, or action that is used as a means to influence another individual's behaviour, but not necessarily with the intent to improperly influence that individual's behaviour. Inducements can range from minor acts of hospitality between sustainability assurance practitioners and existing or prospective sustainability assurance clients to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:
- Gifts.
 - Hospitality.
 - Entertainment.
 - Political or charitable donations.
 - Appeals to friendship and loyalty.
 - Employment or other commercial opportunities.
 - Preferential treatment, rights or privileges.

Inducements Prohibited by Laws and Regulations

- R5340.5** In many jurisdictions, there are laws and regulations, such as those related to bribery and corruption, that prohibit the offering or accepting of inducements in certain circumstances. The sustainability assurance practitioner shall obtain an understanding of relevant laws and regulations and comply with them when the practitioner encounters such circumstances.

Inducements Not Prohibited by Laws and Regulations

- 5340.6 A1 The offering or accepting of inducements that is not prohibited by laws and regulations might still create threats to compliance with the fundamental principles.

Inducements with Intent to Improperly Influence Behaviour

- R5340.7** A sustainability assurance practitioner shall not offer, or encourage others to offer, any inducement that is made, or which the practitioner considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behaviour of the recipient or of another individual.

- R5340.8** A sustainability assurance practitioner shall not accept, or encourage others to accept, any inducement that the practitioner concludes is made, or considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behavior of the recipient or of another individual.
- 5340.9 A1 An inducement is considered as improperly influencing an individual's behavior if it causes the individual to act in an unethical manner. Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient. The fundamental principles are an appropriate frame of reference for a sustainability assurance practitioner in considering what constitutes unethical behavior on the part of the practitioner and, if necessary by analogy, other individuals.
- 5340.9 A2 A breach of the fundamental principle of integrity arises when a sustainability assurance practitioner offers or accepts, or encourages others to offer or accept, an inducement where the intent is to improperly influence the behavior of the recipient or of another individual.
- 5340.9 A3 The determination of whether there is actual or perceived intent to improperly influence behavior requires the exercise of professional judgment. Relevant factors to consider might include:
- The nature, frequency, value and cumulative effect of the inducement.
 - Timing of when the inducement is offered relative to any action or decision that it might influence.
 - Whether the inducement is a customary or cultural practice in the circumstances, for example, offering a gift on the occasion of a religious holiday or wedding.
 - Whether the inducement is an ancillary part of a professional service, for example, offering or accepting lunch in connection with a business meeting.
 - Whether the offer of the inducement is limited to an individual recipient or available to a broader group. The broader group might be internal or external to the firm, such as other suppliers to the sustainability assurance client.
 - The roles and positions of the individuals at the firm or the sustainability assurance client offering or being offered the inducement.
 - Whether the sustainability assurance practitioner knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the sustainability assurance client.
 - The degree of transparency with which the inducement is offered.
 - Whether the inducement was required or requested by the recipient.
 - The known previous behavior or reputation of the offeror.

Consideration of Further Actions

- 5340.10 A1 If the sustainability assurance practitioner becomes aware of an inducement offered with actual or perceived intent to improperly influence behavior, threats to compliance with the fundamental principles might still be created even if the requirements in paragraphs R5340.7 and R5340.8 are met.
- 5340.10 A2 Examples of actions that might be safeguards to address such threats include:
- Informing senior management of the firm or those charged with governance of the sustainability assurance client regarding the offer.
 - Amending or terminating the business relationship with the sustainability assurance client.

Inducements with No Intent to Improperly Influence Behavior

5340.11 A1 The requirements and application material set out in the conceptual framework apply when a sustainability assurance practitioner has concluded there is no actual or perceived intent to improperly influence the behavior of the recipient or of another individual.

5340.11 A2 If such an inducement is trivial and inconsequential, any threats created will be at an acceptable level.

5340.11 A3 Examples of circumstances where offering or accepting such an inducement might create threats even if the sustainability assurance practitioner has concluded there is no actual or perceived intent to improperly influence behavior include:

- Self-interest threats
 - A sustainability assurance practitioner is offered hospitality from the prospective acquirer of a sustainability assurance client while providing corporate finance services to the client.
- Familiarity threats
 - A sustainability assurance practitioner regularly takes an existing or prospective sustainability assurance client to sporting events.
- Intimidation threats
 - A sustainability assurance practitioner accepts hospitality from a sustainability assurance client, the nature of which could be perceived to be inappropriate were it to be publicly disclosed.

5340.11 A4 Relevant factors in evaluating the level of such threats created by offering or accepting such an inducement include the same factors set out in paragraph 5340.9 A3 for determining intent.

5340.11 A5 Examples of actions that might eliminate threats created by offering or accepting such an inducement include:

- Declining or not offering the inducement.
- Transferring responsibility for the provision of any professional services to the sustainability assurance client to another individual who the sustainability assurance practitioner has no reason to believe would be, or would be perceived to be, improperly influenced when providing the services.

5340.11 A6 Examples of actions that might be safeguards to address such threats created by offering or accepting such an inducement include:

- Being transparent with senior management of the firm or of the sustainability assurance client about offering or accepting an inducement.
- Registering the inducement in a log monitored by senior management of the firm or another individual responsible for the firm's ethics compliance or maintained by the sustainability assurance client.
- Having an appropriate reviewer, who is not otherwise involved in providing the professional service to the sustainability assurance client, review any work performed or decisions made by the sustainability assurance practitioner with respect to the client from which the practitioner accepted the inducement.
- Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to a member of senior management of the firm or the individual who offered the inducement.

- Reimbursing the cost of the inducement, such as hospitality, received.
- As soon as possible, returning the inducement, such as a gift, after it was initially accepted.

Immediate or Close Family Members

R5340.12 A sustainability assurance practitioner shall remain alert to potential threats to the practitioner's compliance with the fundamental principles created by the offering of an inducement:

- By an immediate or close family member of the practitioner to an existing or prospective sustainability assurance client.
- To an immediate or close family member of the practitioner by an existing or prospective sustainability assurance client.

R5340.13 Where the sustainability assurance practitioner becomes aware of an inducement being offered to or made by an immediate or close family member and concludes there is intent to improperly influence the ~~behavior~~behaviour of the practitioner or of an existing or prospective sustainability assurance client, or considers a reasonable and informed third party would be likely to conclude such intent exists, the practitioner shall advise the immediate or close family member not to offer or accept the inducement.

5340.13 A1 The factors set out in paragraph 5340.9 A3 are relevant in determining whether there is actual or perceived intent to improperly influence the ~~behavior~~behaviour of the sustainability assurance practitioner or of the existing or prospective sustainability assurance client. Another factor that is relevant is the nature or closeness of the relationship, between:

- The practitioner and the immediate or close family member;
- The immediate or close family member and the existing or prospective client; and
- The practitioner and the existing or prospective client.

For example, the offer of employment, outside of the normal recruitment process, to the spouse of the practitioner by a client for whom the practitioner is performing a sustainability assurance engagement might indicate such intent.

5340.13 A2 The application material in paragraph 5340.10 A2 is also relevant in addressing threats that might be created when there is actual or perceived intent to improperly influence the ~~behavior~~behaviour of the sustainability assurance practitioner, or of the existing or prospective sustainability assurance client even if the immediate or close family member has followed the advice given pursuant to paragraph R5340.13.

Application of the Conceptual Framework

5340.14 A1 Where the sustainability assurance practitioner becomes aware of an inducement offered in the circumstances addressed in paragraph R5340.12, threats to compliance with the fundamental principles might be created where:

- The immediate or close family member offers or accepts the inducement contrary to the advice of the practitioner pursuant to paragraph R5340.13; or
- The practitioner does not have reason to believe an actual or perceived intent to improperly influence the ~~behavior~~behaviour of the practitioner or of the existing or prospective sustainability assurance client exists.

5340.14 A2 The application material in paragraphs 5340.11 A1 to 5340.11 A6 is relevant for the purposes of identifying, evaluating and addressing such threats. Factors that are relevant in evaluating the level of threats in these circumstances also include the nature or closeness of the relationships set out in paragraph 5340.13 A1.

Other Considerations

5340.15 A1 If a sustainability assurance practitioner encounters or is made aware of inducements that might result in non-compliance or suspected non-compliance with laws and regulations by a sustainability assurance client or individuals working for or under the direction of the sustainability assurance client, the requirements and application material in Section 5360 apply.

5340.15 A2 If a firm, network firm or a sustainability assurance team member is being offered gifts or hospitality from a sustainability assurance client, the requirement and application material set out in Section 5420 apply.

[Paragraph 5340.15 A3 is intentionally left blank]

SECTION 5350 CUSTODY OF CLIENT ASSETS

Introduction

- 5350.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5350.2 Holding client assets creates a self-interest or other threat to compliance with the principles of professional ~~behavior~~behaviour and objectivity. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Before Taking Custody

- R5350.3** A sustainability assurance practitioner shall not assume custody of money or other assets belonging to a sustainability assurance client unless permitted to do so by law and in accordance with any conditions under which such custody may be taken.
- R5350.4** As part of client and engagement acceptance procedures related to assuming custody of money or assets belonging to a sustainability assurance client, a sustainability assurance practitioner shall:
- (a) Make inquiries about the source of the assets; and
 - (b) Consider related legal and regulatory obligations.
- 5350.4 A1 Inquiries about the source of assets belonging to a sustainability assurance client might reveal, for example, that the assets were derived from illegal activities, such as money laundering. In such circumstances, a threat would be created and the provisions of Section 5360 would apply.

After Taking Custody

- R5350.5** A sustainability assurance practitioner entrusted with money or other assets belonging to a sustainability assurance client shall:
- (a) Comply with the laws and regulations relevant to holding and accounting for the assets;
 - (b) Keep the assets separately from personal or firm assets;
 - (c) Use the assets only for the purpose for which they are intended; and
 - (d) Be ready at all times to account for the assets and any income, dividends, or gains generated, to any individuals entitled to that accounting.

SECTION 5360

RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Introduction

- 5360.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5360.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional ~~behavior~~behaviour is created when a sustainability assurance practitioner becomes aware of non-compliance or suspected non-compliance with laws and regulations.
- 5360.3 A sustainability assurance practitioner might encounter or be made aware of non-compliance or suspected non-compliance in the course of providing a professional service to a sustainability assurance client. This section guides the practitioner in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the client's financial statements or sustainability information; and
 - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements or sustainability information, but compliance with which might be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the Sustainability Assurance Practitioner in Relation to Non-compliance with Laws and Regulations

- 5360.4 It is in the public interest that sustainability assurance practitioners act ethically in order to maintain public trust and confidence in sustainability information that is subject to assurance. When responding to non-compliance or suspected non-compliance, the objectives of the practitioner are:
- (a) To comply with the principles of integrity and professional ~~behavior~~behaviour;
 - (b) By alerting management or, where appropriate, those charged with governance of the sustainability assurance client, to seek to:
 - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
 - (ii) Deter the commission of the non-compliance where it has not yet occurred; and
 - (c) To take such further action as appropriate in the public interest.

Requirements and Application Material

General

- 5360.5 A1 Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:
- (a) A sustainability assurance client;
 - (b) Those charged with governance of a sustainability assurance client;
 - (c) Management of a sustainability assurance client; or
 - (d) Other individuals working for or under the direction of a sustainability assurance client.

- 5360.5 A2 Examples of laws and regulations which this section addresses include those that deal with:
- Environmental protection.
 - Public health and safety.
 - Protection of human rights.
 - Labor conditions and rights of employees.
 - Consumer rights.
 - Data protection.
 - Fraud, corruption and bribery.
 - Money laundering, terrorist financing and proceeds of crime.
 - Securities markets and trading.
 - Banking and other financial products and services.
 - Tax and pension liabilities and payments.
- 5360.5 A3 Non-compliance might result in fines, litigation or other consequences for the sustainability assurance client, potentially materially affecting its financial statements or sustainability information. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.
- R5360.6** In some jurisdictions, there are legal or regulatory provisions governing how sustainability assurance practitioners should address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the practitioner shall obtain an understanding of those legal or regulatory provisions and comply with them, including:
- (a) Any requirement to report the matter to an appropriate authority; and
 - (b) Any prohibition on alerting the sustainability assurance client.
- 5360.6 A1 A prohibition on alerting the client might arise, for example, pursuant to anti-money laundering legislation.
- 5360.7 A1 This section applies regardless of the nature of the sustainability assurance client, including whether or not it is a public interest entity.
- 5360.7 A2 A sustainability assurance practitioner who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the sustainability assurance client, its stakeholders and the general public.
- 5360.7 A3 This section does not address:
- (a) Personal misconduct unrelated to the business activities of the sustainability assurance client; and
 - (b) Non-compliance by parties other than those specified in paragraph 5360.5 A1. This includes, for example, when the identified or suspected non-compliance has been committed by an entity in the sustainability assurance client's value chain.

The sustainability assurance practitioner might nevertheless find the guidance in this section helpful in considering how to respond in these situations.

Responsibilities of Management and Those Charged with Governance

5360.8 A1 Management, with the oversight of those charged with governance, is responsible for ensuring that the sustainability assurance client's business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:

- (a) The sustainability assurance client;
- (b) An individual charged with governance of the sustainability assurance client;
- (c) A member of management of the sustainability assurance client; or
- (d) Other individuals working for or under the direction of the sustainability assurance client.

Responsibilities of Sustainability Assurance Practitioners

R5360.9 Where a sustainability assurance practitioner becomes aware of a matter to which this section applies, the steps that the practitioner takes to comply with this section shall be taken on a timely basis while remaining alert to the principle of confidentiality. In taking these steps, the practitioner shall have regard to the nature of the matter and the potential harm to the interests of the sustainability assurance client, investors, creditors, employees or the general public.

Sustainability Assurance Engagements Within the Scope of the International Independence Standards (New Zealand) in this Part

Obtaining an Understanding of the Matter

R5360.10 If a sustainability assurance practitioner engaged to perform a sustainability assurance engagement that is within the scope of the International Independence Standards (New Zealand) in this Part becomes aware of information concerning non-compliance or suspected non-compliance, the practitioner shall obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur.

5360.10 A1 The sustainability assurance practitioner might become aware of the non-compliance or suspected non-compliance in the course of performing the sustainability assurance engagement or through information provided by other parties.

5360.10 A2 The sustainability assurance practitioner is expected to apply knowledge and expertise, and exercise professional ~~judgment~~judgement. However, the practitioner is not expected to have a level of knowledge of laws and regulations greater than that which is required to undertake the sustainability assurance engagement. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

5360.10 A3 Depending on the nature and significance of the matter, the sustainability assurance practitioner might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

R5360.11 If the sustainability assurance practitioner identifies or suspects that non-compliance has occurred or might occur, the practitioner shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.

5360.11 A1 The purpose of the discussion is to:

- (a) Clarify the sustainability assurance practitioner's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter; and
- (b) Consider any relevant parties that need to be informed about the matter by management or those charged with governance. Such parties might include the external auditor and/or any other sustainability assurance practitioner(s) performing a sustainability assurance engagement within the scope of the International Independence Standards [\(New Zealand\)](#) in this Part.

5360.11 A2 The appropriate level of management with whom to discuss the matter is a question of professional ~~judgment~~[judgement](#). Relevant factors to consider include:

- The nature and circumstances of the matter.
- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

5360.11 A3 The appropriate level of management is usually at least one level above the individual or individuals involved or potentially involved in the matter. In the context of a group, the appropriate level might be management at an entity that controls the sustainability assurance client.

5360.11 A4 The sustainability assurance practitioner might also consider discussing the matter with internal auditors, where applicable.

R5360.12 If the sustainability assurance practitioner believes that management is involved in the non-compliance or suspected non-compliance, the practitioner shall discuss the matter with those charged with governance.

Addressing the Matter

R5360.13 In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the sustainability assurance practitioner shall advise them to take appropriate and timely actions, if they have not already done so, to:

- (a) Rectify, remediate or mitigate the consequences of the non-compliance;
- (b) Deter the commission of the non-compliance where it has not yet occurred; or
- (c) Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest.

R5360.14 The sustainability assurance practitioner shall consider whether management and those charged with governance understand their legal or regulatory responsibilities with respect to the non-compliance or suspected non-compliance.

5360.14 A1 If management and those charged with governance do not understand their legal or regulatory responsibilities with respect to the matter, the sustainability assurance practitioner might suggest appropriate sources of information or recommend that they obtain legal advice.

R5360.15 The sustainability assurance practitioner shall comply with applicable:

- (a) Laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority; and
- (b) Requirements under sustainability assurance standards, including those relating to:

- Identifying and responding to non-compliance, including fraud.
- Communicating with those charged with governance.
- Considering the implications of the non-compliance or suspected non-compliance for the sustainability assurance report.

5360.15 A1 Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.

Communication with Respect to Groups

R5360.16 Where the sustainability assurance practitioner becomes aware of non-compliance or suspected non-compliance in either of the following two situations in the context of a group, the practitioner shall communicate the matter to the group engagement leader unless prohibited from doing so by law or regulation:

- (a) The practitioner performs sustainability assurance work related to a group component for purposes of the group's sustainability assurance engagement; or
- (b) The practitioner is engaged to perform a sustainability assurance engagement for the sustainability information of a legal entity or business unit that is part of a group for purposes other than the group's sustainability assurance engagement.

The communication to the group engagement leader shall be in addition to responding to the matter in accordance with the provisions of this section.

5360.16 A1 The purpose of the communication is to enable the group engagement leader to be informed about the matter and to determine, in the context of the group's sustainability assurance engagement, whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement in paragraph R5360.16 applies regardless of whether the group engagement leader's firm or network is the same as or different from the sustainability assurance practitioner's firm or network.

R5360.17 Where the group engagement leader becomes aware of non-compliance or suspected non-compliance in the course of a group's sustainability assurance engagement, the group engagement leader shall consider whether the matter might be relevant to:

- (a) One or more group components subject to sustainability assurance work for purposes of the group's sustainability assurance engagement; or
- (b) One or more legal entities or business units that are part of the group and whose sustainability information is subject to assurance for purposes other than the group's sustainability assurance engagement.

This consideration shall be in addition to responding to the matter in the context of the group's sustainability assurance engagement in accordance with the provisions of this section.

R5360.18 If the non-compliance or suspected non-compliance might be relevant to one or more of the group components specified in paragraph R5360.17(a) and legal entities or business units specified in paragraph R5360.17(b), the group engagement leader shall take steps to have the matter communicated to those performing sustainability assurance work at the group components, legal entities or business units, unless prohibited from doing so by law or regulation. If necessary, the group engagement leader shall arrange for appropriate inquiries to be made (either of management or from publicly available information) as to whether the relevant legal entities or business units specified in paragraph R5360.17(b) are subject to sustainability assurance and, if so, to ascertain to the extent practicable the identity of the practitioners.

5360.18 A1 The purpose of the communication is to enable those responsible for sustainability assurance work at the group components, legal entities or business units to be informed about the matter

and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group engagement leader's firm or network is the same as or different from the firms or networks of those performing sustainability assurance work at the group components, legal entities or business units.

Communicating the Matter to the Sustainability Assurance Client's External Auditor

R5360.18a Unless prohibited from doing so by law or regulation, the sustainability assurance practitioner shall communicate the non-compliance or suspected non-compliance to the sustainability assurance client's external auditor, when the sustainability assurance client is also:

- (a) An audit client of the firm; or
- (b) A component of an audit client of the firm.

The communication shall be made in accordance with the firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the engagement partner.

R5360.18b The sustainability assurance practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the sustainability assurance client's external auditor, when the sustainability assurance client is:

- (a) Also an audit client, or a component of an audit client, of a network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the engagement partner; or
- (b) Not an audit client, or a component of an audit client, of the firm or a network firm.

Relevant Factors to Consider

5360.18b A1 Factors relevant to considering the communication in accordance with paragraph R5360.18b include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether management or those charged with governance have already informed the sustainability assurance client's external auditor about the matter.

Purpose of Communication

5360.18b A2 In the circumstances addressed in paragraphs R5360.18a and R5360.18b, the purpose of the communication is to enable:

- (a) The engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of the Code; and
- (b) The sustainability assurance practitioner and the engagement partner to discuss and coordinate to the extent necessary relevant actions pursuant to the provisions in this section and Section 360, respectively.

Determining Whether Further Action Is Needed

R5360.19 The sustainability assurance practitioner shall assess the appropriateness of the response of management and, where applicable, those charged with governance.

5360.19 A1 Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, those charged with governance include whether:

- The response is timely.
- The non-compliance or suspected non-compliance has been adequately investigated.
- Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance.
- Action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred.
- Appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for example, additional controls or training.
- The non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

R5360.20 In light of the response of management and, where applicable, those charged with governance, the sustainability assurance practitioner shall determine if further action is needed in the public interest.

5360.20 A1 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:

- The legal and regulatory framework.
- The urgency of the situation.
- The pervasiveness of the matter throughout the sustainability assurance client.
- Whether the sustainability assurance practitioner continues to have confidence in the integrity of management and, where applicable, those charged with governance.
- Whether the non-compliance or suspected non-compliance is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the sustainability assurance client, investors, creditors, employees or the general public.

5360.20 A2 Examples of circumstances that might cause the sustainability assurance practitioner no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations where:

- The practitioner suspects or has evidence of their involvement or intended involvement in any non-compliance.
- The practitioner is aware that they have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or ~~authoriz~~ised the reporting of, the matter to an appropriate authority within a reasonable period.

R5360.21 The sustainability assurance practitioner shall exercise professional ~~judgment~~judgement in determining the need for, and nature and extent of, further action. In making this determination, the practitioner shall take into account whether a reasonable and informed third party would be likely to conclude that the practitioner has acted appropriately in the public interest.

5360.21 A1 Further action that the sustainability assurance practitioner might take includes:

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

5360.21 A2 Withdrawing from the engagement and the professional relationship is not a substitute for taking other actions that might be needed to achieve the sustainability assurance practitioner's objectives under this section. In some jurisdictions, however, there might be limitations as to the further actions available to the practitioner. In such circumstances, withdrawal might be the only available course of action.

R5360.22 Where the sustainability assurance practitioner has withdrawn from the professional relationship pursuant to paragraphs R5360.20 and 5360.21 A1, the practitioner shall, on request by the proposed practitioner pursuant to paragraph R5320.8, provide all relevant facts and other information concerning the identified or suspected non-compliance to the proposed practitioner. The predecessor practitioner shall do so, even in the circumstances addressed in paragraph R5320.8(b) where the sustainability assurance client fails or refuses to grant the predecessor practitioner permission to discuss the client's affairs with the proposed practitioner, unless prohibited by law or regulation.

5360.22 A1 The facts and other information to be provided are those that, in the predecessor practitioner's opinion, the proposed practitioner needs to be aware of before deciding whether to accept the appointment. Section 5320 addresses communications from proposed practitioners.

R5360.23 If the proposed practitioner is unable to communicate with the predecessor practitioner, the proposed practitioner shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means.

5360.23 A1 Other means to obtain information about the circumstances of the change of appointment include inquiries of third parties or background investigations of management or those charged with governance.

5360.24 A1 As assessment of the matter might involve complex analysis and ~~judgment~~judgements, the practitioner might consider:

- Consulting internally.
- Obtaining legal advice to understand the practitioner's options and the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.

Determining Whether to Disclose the Matter to an Appropriate Authority

5360.25 A1 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.

5360.25 A2 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public. For example, the sustainability assurance practitioner might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:
 rThe sustainability assurance client is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).

- The sustainability assurance client is regulated and the matter is of such significance as to threaten its license to operate.
- The sustainability assurance client is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the client's securities or pose a systemic risk to the financial markets.
- It is likely that the sustainability assurance client would sell products that are harmful to public health or safety.

- The sustainability assurance client is promoting a scheme to its clients to assist them in evading taxes.

5360.25 A3 The determination of whether to make such a disclosure will also depend on external factors such as:

- Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend on the nature of the matter. For example, the appropriate authority would be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations. Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.
- Whether there are actual or potential threats to the physical safety of the sustainability assurance practitioner or other individuals.

R5360.26 If the sustainability assurance practitioner determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R5114.3. When making such disclosure, the practitioner shall act in good faith and exercise caution when making statements and assertions. The practitioner shall also consider whether it is appropriate to inform the sustainability assurance client of the practitioner's intentions before disclosing the matter.

Imminent Breach

R5360.27 In exceptional circumstances, the sustainability assurance practitioner might become aware of actual or intended conduct that the practitioner has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the sustainability assurance client, the practitioner shall exercise professional ~~judgment~~judgement and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to paragraph R5114.3.

Documentation

R5360.28 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the sustainability assurance practitioner shall document:

- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the practitioner considered, the ~~judgment~~judgements made and the decisions that were taken, having regard to the reasonable and informed third party test.
- How the practitioner is satisfied that the practitioner has fulfilled the responsibility set out in paragraph R5360.20.

5360.28 A1 This documentation is in addition to complying with the documentation requirements in relation to non-compliance or suspected non-compliance under applicable sustainability assurance standards.

Sustainability Assurance Engagements Not Within the Scope of the International Independence Standards (New Zealand) in this Part and Other Professional Services

Obtaining an Understanding of the Matter and Addressing It with Management and Those Charged with Governance

R5360.29 If a sustainability assurance practitioner engaged to perform a sustainability assurance engagement that is not within the scope of the International Independence Standards (New Zealand) in this Part or another professional service for a sustainability assurance client becomes aware of information concerning non-compliance or suspected non-compliance, the practitioner shall seek to obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might be about to occur.

5360.29 A1 The sustainability assurance practitioner is expected to apply knowledge and expertise, and exercise professional ~~judgment~~judgement. However, the practitioner is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional service for which the practitioner was engaged. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

5360.29 A2 Depending on the nature and significance of the matter, the sustainability assurance practitioner might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

R5360.30 If the sustainability assurance practitioner identifies or suspects that non-compliance has occurred or might occur, the practitioner shall discuss the matter with the appropriate level of management. If the practitioner has access to those charged with governance, the practitioner shall also discuss the matter with them where appropriate.

5360.30 A1 The purpose of the discussion is to clarify the sustainability assurance practitioner's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.

5360.30 A2 The appropriate level of management with whom to discuss the matter is a question of professional ~~judgment~~judgement. Relevant factors to consider include:

- The nature and circumstances of the matter.
- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

Communicating the Matter to the Sustainability Assurance Client's External Auditor

R5360.31 If the sustainability assurance practitioner is performing a sustainability assurance engagement that is not within the scope of the International Independence Standards (New Zealand) in this Part or another professional service for a sustainability assurance client that is:

- (a) An audit client of the firm; or
- (b) A component of an audit client of the firm,

the practitioner shall communicate the non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in

accordance with the firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the engagement partner.

R5360.32 If the sustainability assurance practitioner is performing a sustainability assurance engagement that is not within the scope of the International Independence Standards [\(New Zealand\)](#) in this Part or another professional service for a sustainability assurance client that is:

- (a) An audit client of a network firm; or
- (b) A component of an audit client of a network firm,

the practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the engagement partner.

R5360.33 If the sustainability assurance practitioner is performing a sustainability assurance engagement that is not within the scope of the International Independence Standards [\(New Zealand\)](#) in this Part or another professional service for a sustainability assurance client that is not:

- (a) An audit client of the firm or a network firm; or
- (b) A component of an audit client of the firm or a network firm,

the practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the firm that is the sustainability assurance client's external auditor, if any.

Relevant Factors to Consider

5360.34 A1 Factors relevant to considering the communication in accordance with paragraphs R5360.31 to R5360.33 include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the sustainability assurance client to enable it to take appropriate action.
- Whether management or those charged with governance have already informed the entity's external auditor about the matter.

Purpose of Communication

5360.35 A1 In the circumstances addressed in paragraphs R5360.31 to R5360.33, the purpose of the communication is to enable the engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of the Code.

Considering Whether Further Action Is Needed

R5360.36 The sustainability assurance practitioner shall also consider whether further action is needed in the public interest.

5360.36 A1 Whether further action is needed, and the nature and extent of it, will depend on factors such as:

- The legal and regulatory framework.
- The appropriateness and timeliness of the response of management and, where applicable, those charged with governance.
- The urgency of the situation.
- The involvement of management or those charged with governance in the matter.
- The likelihood of substantial harm to the interests of the sustainability assurance client, investors, creditors, employees or the general public.

5360.36 A2 Further action by the sustainability assurance practitioner might include:

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

5360.36 A3 In considering whether to disclose to an appropriate authority, relevant factors to take into account include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the sustainability assurance client to enable it to take appropriate action.

R5360.37 If the sustainability assurance practitioner determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R5114.3. When making such disclosure, the practitioner shall act in good faith and exercise caution when making statements and assertions. The practitioner shall also consider whether it is appropriate to inform the sustainability assurance client of the practitioner's intentions before disclosing the matter.

Imminent Breach

R5360.38 In exceptional circumstances, the sustainability assurance practitioner might become aware of actual or intended conduct that the practitioner has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the sustainability assurance client, the practitioner shall exercise professional ~~judgment~~judgement and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. If disclosure is made, that disclosure is permitted pursuant to paragraph R5114.3.

Seeking Advice

5360.39 A1 The sustainability assurance practitioner might consider:

- Consulting internally.
- Obtaining legal advice to understand the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.

Documentation

5360.40 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the sustainability assurance practitioner is encouraged to document:

- The matter.
- The results of discussion with management and, where applicable, those charged with governance and other parties.
- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the practitioner considered, the ~~judgment~~judgements made and the decisions that were taken.
- How the practitioner is satisfied that the practitioner has fulfilled the responsibility set out in paragraph R5360.36.

SECTION 5380

TAX PLANNING SERVICES

Introduction

- 5380.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5380.2 Providing tax planning services might create self-interest, self-review, advocacy, or intimidation threats to compliance with the fundamental principles.
- 5380.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the provision of tax planning services to a sustainability assurance client. This section also requires a sustainability assurance practitioner to comply with relevant tax laws and regulations when providing such services.

Requirements and Application Material

General

Public Interest Role of Sustainability Assurance Practitioners in Relation to Tax Planning Services

- 5380.4 A1 Sustainability assurance practitioners providing tax planning services to sustainability assurance clients play an important role by contributing their expertise to assist those clients in meeting their tax planning goals while complying with tax laws and regulations. In doing so, practitioners help to facilitate a more efficient and effective operation of a jurisdiction's tax system, which is in the public interest.
- 5380.4 A2 Clients are entitled to **organize** their affairs for tax planning purposes. While there are a variety of ways to achieve such purposes, clients have a responsibility to pay taxes as determined by the relevant tax laws and regulations. In this regard, sustainability assurance practitioners' role is to use their expertise to assist their sustainability assurance clients in achieving their tax planning goals and meeting their tax obligations. However, when practitioners provide such assistance, it might involve certain tax **minimization** arrangements that, although not prohibited by tax laws and regulations, might create threats to compliance with the fundamental principles.
- 5380.4 A3 It is ultimately for a tribunal, court or other appropriate adjudicative body to determine whether a tax planning arrangement complies with the relevant tax laws and regulations.

Description of Tax Planning Services

- 5380.5 A1 Tax planning services are advisory services designed to assist a sustainability assurance client, in planning or structuring the client's affairs in a tax-efficient manner.
- 5380.5 A2 Tax planning services cover a broad range of topics or areas. Examples of such services include:
- Advising an entity to structure its tax affairs to achieve investment goals.
 - Advising an entity on structuring its ownership of, and income from, separate businesses to **minimize** its overall taxes.
 - Advising an entity on structuring its international operations to **minimize** its overall taxes.
 - Advising on the structuring of transfer pricing arrangements, taking into account tax-related transfer pricing guidelines.
 - Advising on the **utilization** of losses in a tax-efficient manner.
 - Advising an entity on the structuring of its capital distribution strategy in a tax-efficient manner.

- Advising an entity on structuring its compensation strategy for senior executives to optimizise the tax benefits.

5380.5 A3 Tax planning services do not include services that are generally referred to as tax compliance or tax preparation, which are services to assist the sustainability assurance client in fulfilling the client's filing, reporting, payment and other obligations under tax laws and regulations. However, if a tax service comprises both tax planning and tax compliance, the portion that relates to tax planning is covered by this section.

5380.5 A4 This section applies regardless of the nature of the sustainability assurance client, including whether it is a public interest entity.

Related Services

5380.6 A1 There might be circumstances where a sustainability assurance practitioner is engaged to provide a related service to a sustainability assurance client that is based on or linked to a tax planning arrangement developed by the client or a third-party provider. In such circumstances, the provisions of this section apply to the underlying tax planning arrangement.

5380.6 A2 Examples of such related services include:

- Assisting the sustainability assurance client in resolving a dispute with the tax authority on the tax planning arrangement.
- Representing the sustainability assurance client in administrative or court proceedings regarding the tax planning arrangement.
- Implementing the tax planning arrangement for the sustainability assurance client.
- Advising the sustainability assurance client on an acquisition where the valuation depends on the tax planning arrangement established by the target.

Compliance with Laws and Regulations

5380.7 A1 This section does not address tax evasion, which is illegal.

Anti-avoidance Laws and Regulations

R5380.8 Where there are laws and regulations, including those that might be referred to as anti-avoidance rules, that limit or prohibit certain tax planning arrangements, a sustainability assurance practitioner shall obtain an understanding of those laws and regulations and advise the sustainability assurance client to comply with them when providing tax planning services.

Non-compliance with Tax Laws and Regulations

5380.8 A1 If, in the course of providing tax planning services, a sustainability assurance practitioner becomes aware of tax evasion or suspected tax evasion, or other non-compliance or suspected non-compliance with tax laws and regulations by a sustainability assurance client, management, those charged with governance or other individuals working for or under the direction of the client, the requirements and application material set out in Section 5360 apply.

Responsibilities of Management and Those Charged with Governance

5380.9 A1 In relation to tax planning, management, with the oversight of those charged with governance, has a number of responsibilities, including:

- Ensuring that the sustainability assurance client's tax affairs are conducted in accordance with the relevant tax laws and regulations.

- Maintaining all the books and records and implementing the systems of internal control necessary to enable the sustainability assurance client to fulfil its tax compliance obligations.
- Making available all the facts and other relevant information needed to enable the sustainability assurance practitioner to perform the tax planning service.
- Engaging experts to advise on relevant aspects of the tax planning arrangement.
- Deciding whether to accept and implement the sustainability assurance practitioner's recommendation or advice on a tax planning arrangement.
- Authorizing the submission of the sustainability assurance client's tax returns and ensuring that any matters raised by the relevant tax authorities are addressed in a timely manner.
- Making such disclosures to the relevant tax authorities as might be required by tax laws and regulations or as might be necessary to support a tax position, including details of any tax planning arrangements.
- Making appropriate disclosure of tax strategy, policies or other tax-related matters in the financial statements, sustainability disclosures or other relevant public documents in accordance with applicable reporting requirements.
- Ensuring that the sustainability assurance client's tax planning arrangements are consistent with any publicly disclosed tax strategy or policies.

Responsibilities of All Sustainability Assurance Practitioners

R5380.10 As part of providing a tax planning service, a sustainability assurance practitioner shall obtain an understanding of the nature of the engagement, including:

- (a) Knowledge and understanding of the sustainability assurance client, its owners, management and those charged with governance, and its business activities;
- (b) The purpose, facts and circumstances of the tax planning arrangement; and
- (c) The relevant tax laws and regulations.

5380.10 A1 The requirements and application material in Section 5320 apply with respect to client and engagement acceptance.

[Paragraph 5380.10 A2 is intentionally left blank]

5380.11 A1 A sustainability assurance practitioner is expected to apply professional competence and due care in accordance with Subsection 5113 when providing a tax planning service. The practitioner is also expected to have an inquiring mind and exercise professional ~~judgment~~judgement in accordance with Section 5120 when considering the specific facts and circumstances relating to the tax planning service.

Basis for Recommending or otherwise Advising on a Tax Planning Arrangement

R5380.12 A sustainability assurance practitioner shall recommend or otherwise advise on a tax planning arrangement to a sustainability assurance client only if the practitioner has determined that there is a credible basis in laws and regulations for the arrangement.

5380.12 A1 The determination of whether there is a credible basis involves the exercise of professional ~~judgment~~judgement by the sustainability assurance practitioner. This determination will vary from jurisdiction to jurisdiction based on the relevant laws and regulations at the time.

5380.12 A2 If the sustainability assurance practitioner determines that the tax planning arrangement does not have a credible basis in laws and regulations, paragraph R5380.12 does not preclude the

practitioner from explaining to the sustainability assurance client the practitioner's rationale for the determination or advising on an alternative arrangement that has a credible basis.

5380.12 A3 Paragraph R5380.12 also does not preclude the sustainability assurance practitioner from being engaged by the sustainability assurance client, or otherwise assisting the client, to remediate or rectify a tax planning arrangement which lacks a credible basis. Such type of service is a related service as described in paragraphs 5380.6 A1 and A2. This includes, for example:

- Assisting the client to restructure a tax planning arrangement to achieve a credible basis as part of a tax dispute resolution service.
- Agreeing with the client appropriate changes to the tax planning arrangement to achieve a credible basis as part of representing the client in administrative or court proceedings.

5380.12 A4 Examples of actions that a sustainability assurance practitioner might take to determine that there is a credible basis in relation to a particular tax planning arrangement include:

- Reviewing the relevant facts and circumstances, including the economic purpose and substance of the arrangement.
- Assessing the reasonableness of any assumptions.
- Reviewing the relevant tax legislation.
- Reviewing legislative proceedings that discuss the intent of the relevant tax legislation.
- Reviewing relevant literature such as court decisions, professional or industry journals, and tax authority rulings or guidance.
- Considering whether the basis used for the proposed arrangement is an established practice that has not been challenged by the relevant tax authorities.
- Considering how likely the proposed arrangement would be accepted by the relevant tax authorities if all the relevant facts and circumstances were disclosed.
- Consulting with legal counsel or other experts within or outside the sustainability assurance practitioner's firm regarding what a reasonable interpretation of the relevant laws and regulations might be.
- Consulting with the relevant tax authorities, where applicable.

R5380.13 If, during the course of the engagement, the sustainability assurance practitioner becomes aware of circumstances that might impact the previous determination of the credible basis, the practitioner shall re-assess the validity of that basis.

Consideration of the Overall Tax Planning Recommendation or Advice

R5380.14 In addition to determining that there is a credible basis for the tax planning arrangement, the sustainability assurance practitioner shall exercise professional ~~judgment~~judgement and consider the reputational, commercial and wider economic consequences that could arise from the way stakeholders might view the arrangement.

5380.14 A1 The reputational and commercial consequences might relate to business implications to the sustainability assurance client or implications to the reputation of the client or a relevant profession or a group of practitioners to which the sustainability assurance practitioner might belong from a prolonged dispute with the relevant tax or other authorities. The implications to the client might involve adverse publicity, costs, fines or penalties, loss of management time over a significant period, and potential adverse consequences for the client's business.

5380.14 A2 An awareness of the wider economic consequences might take into account the sustainability assurance practitioner's general understanding of the current economic environment and the

impact of the tax planning arrangement on the tax base of the jurisdiction, or the relative impacts of the arrangement on the tax bases of multiple jurisdictions, where the sustainability assurance client operates.

R5380.15 If, having considered the matters set out in paragraph R5380.14, the sustainability assurance practitioner decides not to recommend or otherwise advise on a tax planning arrangement that the sustainability assurance client would like to pursue, the practitioner shall inform the client of this and explain the basis for the practitioner's conclusion.

Tax Planning Arrangements Involving Multiple Jurisdictions

5380.16 A1 There might be circumstances where a sustainability assurance practitioner becomes aware that a sustainability assurance client is obtaining a tax benefit from accounting for the same transaction in more than one jurisdiction, especially if there is no tax treaty between the jurisdictions. In such circumstances, while the client might be in compliance with the tax laws and regulations of each jurisdiction, the practitioner might advise the client to disclose to the relevant tax authorities the particular facts and circumstances and the tax benefits derived from the transaction in the different jurisdictions.

5380.16 A2 Relevant factors the sustainability assurance practitioner might consider in determining whether to advise the sustainability assurance client to make such disclosure include:

- The significance of the tax benefits in the relevant jurisdictions.
- Stakeholders' perceptions of the client if the facts and circumstances were known to the stakeholders.
- Whether there are globally or nationally accepted principles or practices regarding disclosure of similar situations to the tax authorities in the relevant jurisdictions.

Circumstances of Uncertainty

5380.17 A1 In determining whether there is a credible basis for the tax planning arrangement, a sustainability assurance practitioner might encounter circumstances giving rise to uncertainty as to whether a proposed tax planning arrangement will be in compliance with the relevant tax laws and regulations. Such uncertainty makes it more challenging for the practitioner to determine that there is a credible basis in laws and regulations for the tax planning arrangement and might, therefore, create threats to compliance with the fundamental principles.

5380.17 A2 Circumstances that might give rise to uncertainty include:

- Difficulty in establishing an adequate factual basis.
- Difficulty in establishing an adequate basis of assumptions.
- Lack of clarity in the tax laws and regulations and their interpretation, including:
 - Gaps in the tax laws and regulations.
 - Challenges to previous court rulings.
 - Conflicting tax laws and regulations in different jurisdictions in circumstances involving cross-border transactions.
 - Innovative business models not addressed by the current tax laws and regulations.
 - Recent court or tax authority rulings or positions that cast doubt on similar tax planning arrangements.
 - Complexity in interpreting or applying the tax laws and regulations from a technical or legal point of view.

- Lack of a legal precedent, ruling or position.
- Lack of clarity regarding the economic purpose and substance of the tax planning arrangement.
- Lack of clarity about the ultimate beneficiaries of the tax planning arrangement.

R5380.18 Where there is uncertainty as to whether a tax planning arrangement is or will be in compliance with the relevant tax laws and regulations, a sustainability assurance practitioner shall discuss the uncertainty with the sustainability assurance client.

5380.18 A1 The discussion serves a number of purposes, including:

- Explaining the sustainability assurance practitioner's assessment about how likely the relevant tax authorities are to have a view that supports the tax planning arrangement where there is a lack of clarity in the interpretation of the relevant tax laws and regulations.
- Considering any assumptions made when establishing the basis on which the tax planning advice is provided.
- Obtaining any additional information from the sustainability assurance client that might reduce the uncertainty.
- Discussing any reputational, commercial or wider economic consequences in pursuing the tax planning arrangement.
- Discussing potential courses of action to mitigate the possibility of adverse consequences for the sustainability assurance client, including consideration of disclosure to the relevant tax authorities.

Potential Threats Arising from Providing a Tax Planning Service

5380.19 A1 Providing a tax planning service to a sustainability assurance client might create a self-interest, self-review, advocacy or intimidation threat. For example:

- A self-review threat might be created when a sustainability assurance practitioner has recently provided a valuation service to a client for tax purposes, the output of which is then relied upon or is a key input to a tax planning service for the client.
- A self-interest threat might be created when a sustainability assurance practitioner has a direct financial interest in a client and the ~~accountant~~ sustainability assurance practitioner is involved in designing a tax planning arrangement that has an impact on the client's financial situation.
- Self-interest and advocacy threats might be created when a sustainability assurance practitioner actively promotes a particular tax position a client should adopt.
- A self-interest threat might be created when a sustainability assurance practitioner is in possession of confidential information obtained from the practitioner's involvement in formulating or drafting tax policy, laws or regulations for a government agency and the confidential information would be valuable to the practitioner in advising other clients on their tax planning arrangements.
- A self-interest threat might be created when a sustainability assurance practitioner accepts a fee that might be perceived to be excessive for an engagement to develop a tax planning arrangement for which the interpretation of the relevant tax laws and regulations is uncertain or unclear.
- Self-interest and advocacy threats might be created when a sustainability assurance practitioner advocates a client's position in a tax planning arrangement which the practitioner previously advised on before a tax authority when there are indications that the arrangement might not have a credible basis in laws and regulations.

- Self-interest and intimidation threats might be created when a sustainability assurance practitioner provides services to a client who exerts significant influence over the design of a particular tax arrangement, in a way that might influence the practitioner's determination that there is a credible basis for the arrangement in laws and regulations.
- Self-interest and intimidation threats might be created when a sustainability assurance practitioner is threatened with dismissal from the engagement or the practitioner's firm concerning the position a client is insisting on pursuing regarding a tax planning arrangement.

5380.19 A2 Factors that are relevant in evaluating the level of such threats include:

- The degree of transparency of the sustainability assurance client, including, where applicable, the identity of the ultimate beneficiaries.
- Whether the tax planning arrangement has a clear economic purpose and substance based on the underlying business transaction or circumstances.
- The nature and complexity of the underlying business transaction or circumstances.
- The complexity or clarity of the relevant tax laws and regulations.
- Whether the sustainability assurance practitioner knows, or has reason to believe, that the tax planning arrangement would be contrary to the intent of the relevant tax legislation.
- The number of jurisdictions involved and the nature of their tax regimes.
- The extent of the sustainability assurance practitioner's expertise in the relevant tax areas.
- The significance of the potential tax savings.
- The nature and amount of the fee for the tax planning service.
- The extent to which the sustainability assurance practitioner is aware that the tax planning arrangement reflects an established practice that has not been challenged by the relevant tax authorities.
- Whether there is pressure being exerted by the sustainability assurance client or another party on the sustainability assurance practitioner.
- The degree of urgency in implementing the tax planning arrangement.
- Whether it is a tax planning arrangement used for multiple sustainability assurance clients with little modification for the client's specific circumstances.
- The known previous ~~behavior~~behaviour or reputation of the sustainability assurance client, including its ~~organiz~~organisational culture.

5380.19 A3 Examples of actions that might eliminate such threats include:

- Referring the sustainability assurance client to an expert outside the sustainability assurance practitioner's firm who has the necessary expertise to advise the client on the tax planning arrangement.
- Advising the sustainability assurance client to structure the tax planning arrangement so that it is consistent with an existing interpretation or ruling issued by the relevant tax authorities.
- Obtaining an advance ruling from the relevant tax or other authorities, where possible.
- Advising the sustainability assurance client not to pursue the tax planning arrangement.

5380.19 A4 Examples of actions that might be safeguards to address such threats include:

- Establishing the identity of the ultimate beneficiaries.
- Advising the sustainability assurance client to structure the tax planning arrangement so that it better aligns with the underlying economic purpose and substance.
- Advising the sustainability assurance client to structure the tax planning arrangement based on an established practice that is currently not subject to challenge by the relevant tax authorities or is known to have been accepted by the relevant tax authorities.
- Consulting with a legal counsel or other expert within or outside the sustainability assurance practitioner's firm in the relevant tax areas.
- Obtaining an opinion from an appropriately qualified professional (such as legal counsel or a professional accountant) regarding the interpretation of the relevant tax laws and regulations as applied to the particular circumstances.
- Having an appropriate reviewer, who is not otherwise involved in providing the tax planning service, review any work performed or conclusions reached by the sustainability assurance practitioner with respect to the tax planning arrangement.
- Having the sustainability assurance client provide full transparency about the tax planning arrangement to the relevant tax authorities, including the goals, business and legal aspects, and ultimate beneficiaries of the tax planning arrangement.

5380.19 A5 Examples of steps a sustainability assurance practitioner might take to establish the identity of the ultimate beneficiaries include:

- Making inquiries of management and others within the sustainability assurance client.
- Making inquiries of others within or outside the firm who have dealt with the sustainability assurance client, having regard to the principle of confidentiality.
- Reviewing the sustainability assurance client's tax records, financial statements and other relevant corporate records.
- Making inquiries of registrars where the sustainability assurance client or entities within its legal structure are incorporated concerning the relevant shareholders.
- Researching relevant public records.

Communication of Basis of the Tax Planning Recommendation or Advice

R5380.20 A sustainability assurance practitioner shall explain the basis on which the practitioner recommended or otherwise advised on a tax planning arrangement to the sustainability assurance client.

Disagreement with the Sustainability Assurance Client

R5380.21 If the sustainability assurance practitioner disagrees that a tax planning arrangement that a sustainability assurance client would like to pursue has a credible basis, the practitioner shall:

- (a) Inform the client of the basis of the practitioner's assessment;
- (b) Communicate to the client the potential consequences of pursuing the arrangement; and
- (c) Advise the client not to pursue the arrangement.

R5380.22 If the sustainability assurance client decides to pursue the tax planning arrangement despite the sustainability assurance practitioner's advice to the contrary, the practitioner shall advise the client to:

- (a) Communicate internally to the appropriate level of management the details of the arrangement and the difference of views;
- (b) Consider making full disclosure of the arrangement to the relevant tax authorities; and
- (c) Consider communicating the details of the arrangement and the difference of views to the external auditor, if any.

5380.22 A1 As part of communicating the matters set out in paragraphs R5380.21 and R5380.22, a sustainability assurance practitioner might consider it appropriate to raise the relevant matters with those charged with governance of the sustainability assurance client.

R5380.23 In light of the sustainability assurance client's response to the sustainability assurance practitioner's advice, the practitioner shall consider whether there is a need to withdraw from the engagement and the professional relationship.

Tax Planning Products or Arrangements Developed by a Third Party

R5380.24 If a sustainability assurance client engages a sustainability assurance practitioner to advise on a tax planning product or arrangement developed by a third party, the practitioner shall:

- (a) Inform the client of any professional or business relationship the sustainability assurance practitioner has with the third-party provider; and
- (b) Apply the provisions in this section with respect to the tax planning product or arrangement.

R5380.25 If a sustainability assurance practitioner recommends or refers a sustainability assurance client to a third-party provider of tax planning services, the practitioner shall inform the client of any professional or business relationship the practitioner has with the third-party provider.

5380.25 A1 Where the sustainability assurance practitioner only recommends or refers a sustainability assurance client to a third-party provider of tax planning services, the provisions of this section do not apply.

5380.25 A2 If a sustainability assurance practitioner receives a referral fee or commission from the third-party provider, the provisions in Section 5330 apply.

Documentation

5380.26 A1 When providing a tax planning service, a sustainability assurance practitioner is encouraged to document on a timely basis:

- The purpose, circumstances and substance of the tax planning arrangement.
- The identity of the ultimate beneficiaries.
- The nature of any uncertainties.
- The practitioner's analysis, the courses of action considered, the ~~judgment~~judgements made, and the conclusions reached in advising the sustainability assurance client on the tax planning arrangement.
- The results of discussions with the sustainability assurance client and other parties.
- The sustainability assurance client's response to the practitioner's advice.
- Any disagreement with the sustainability assurance client.

5380.26 A2 Preparing such documentation assists the sustainability assurance practitioner to:

- Consider the reputational, commercial and wider economic consequences that could arise from the way stakeholders might view the arrangement.

- Develop the practitioner's analysis of the facts, circumstances, relevant tax laws and regulations and any assumptions made or changed.
- Record the basis of the professional ~~judgment~~judgements at the time they were made or changed.
- Support the position if the tax planning arrangement is challenged by the relevant tax authorities.
- Demonstrate that the practitioner has complied with the provisions in this section.

**SECTION 5390
USING THE WORK OF AN EXTERNAL EXPERT**

[Placeholder – The provisions in Section 390 “Using the Work of an External Expert” are included in the Final Pronouncement addressing Using the Work of an External Expert]

(....)

INTERNATIONAL INDEPENDENCE STANDARDS (NEW ZEALAND) FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS

SECTION 5400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS

Introduction

General

5400.1 It is in the public interest and required by the Code that sustainability assurance practitioners be independent when performing sustainability assurance engagements.

[Paragraph 5400.2 is intentionally left blank]

5400.3 In the International Independence Standards (New Zealand) in this Part, the term “sustainability assurance practitioner” refers to individuals conducting sustainability assurance engagements or, as applicable, their firms.

5400.3a The International Independence Standards (New Zealand) in this Part apply to both reasonable assurance and limited assurance sustainability assurance engagements. In this Part, references are made to a firm expressing an opinion on the sustainability information in the context of a reasonable assurance sustainability assurance engagement. In the context of a limited assurance engagement, those references mean a firm expressing a conclusion on the sustainability information.

Scope of the International Independence Standards in Part 5

5400.3b The International Independence Standards (New Zealand) in this Part only apply to a sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion:

- (a) Is reported in accordance with a general purpose framework; and
- (b) Is
 - (i) Required to be provided in accordance with law or regulation; or
 - (ii) Publicly disclosed to support decision-making by investors or other users.

5400.3c Law or regulation might also require the application of the International Independence Standards (New Zealand) in Part 5 to sustainability assurance engagements other than those described in paragraph 5400.3b.

5400.3d An assurance engagement might be either an attestation engagement or a direct engagement. The International Independence Standards (New Zealand) in this Part cover only sustainability assurance engagements that are attestation engagements.

5400.3e Part 4B of the Code sets out International Independence Standards (New Zealand) for other sustainability assurance engagements that are not within the scope of the International Independence Standards (New Zealand) in this Part. These include, for example:

- A sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion is reported solely in accordance with:

- A framework designed to meet the information needs of specified users; or
- Entity-developed criteria.
- A sustainability assurance engagement for which the sustainability assurance report is a restricted use and distribution report.

Quality Management

5400.3f Quality management within firms that perform sustainability assurance engagements is an integral part of high-quality sustainability assurance engagements. Sustainability assurance standards are based on an expectation that the sustainability assurance practitioner has a system of quality management designed, implemented and operated in accordance with applicable quality management standards. For example, ISSA™ 5000 requires compliance with [ISQM-1 Professional Ethical Standard 3](#) or professional requirements, or requirements in law or regulation, that an appropriate authority has determined to be at least as demanding as [ISQM-1 Professional Ethical Standard 3](#).

5400.4 Legal, regulatory or professional requirements that deal with the firm's responsibilities to design, implement, and operate a system of quality management might require the firm to address the fulfilment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Relevant ethical requirements are those related to the firm, its personnel and, when applicable, others subject to the independence requirements to which the firm and the firm's engagements are subject. The allocation of responsibilities within a firm will depend on its size, structure and organisation. Many of the provisions of the International Independence Standards ([New Zealand](#)) in this Part do not prescribe the specific responsibilities of individuals within the firm for actions related to independence, instead referring to "firm" for ease of reference.

5400.5 Independence is linked to the principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional ~~judgment~~[judgement](#), thereby allowing an individual to act with integrity, and exercise objectivity and professional ~~skepticism~~[scepticism](#).
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or a sustainability assurance team member's, integrity, objectivity, or professional ~~skepticism~~[scepticism](#) has been compromised.

In the International Independence Standards ([New Zealand](#)) in this Part, references to an individual or firm being "independent" mean that the individual or firm has complied with the provisions of this Part.

5400.6 When performing sustainability assurance engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing such engagements. The conceptual framework set out in Section 5120 applies to independence as it does to the fundamental principles set out in Section 5110. Section 5405 sets out specific requirements and application material applicable in a group sustainability assurance engagement.

5400.7 The International Independence Standards ([New Zealand](#)) in this Part describe:

- (a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;

- (b) Potential actions, including safeguards, that might be appropriate to address any such threats; and
- (c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level.

Engagement Team and Sustainability Assurance Team

- 5400.8 The International Independence Standards [\(New Zealand\)](#) in this Part apply to all sustainability assurance team members, including engagement team members.
- 5400.9 An engagement team for a sustainability assurance engagement includes all leaders and staff in the firm who perform assurance procedures on the engagement, and any other individuals who perform such procedures who are from within or outside the firm's network.

[Paragraph 5400.10 is intentionally left blank]

- 5400.10a If the firm intends to use the assurance work of another sustainability assurance practitioner and the firm is able to be sufficiently and appropriately involved in the practitioner's work, that practitioner is a member of the engagement team. For example, an individual from a component practitioner who performs assurance procedures on the sustainability information of a component for purposes of a group sustainability assurance engagement is a member of the engagement team for the group sustainability assurance engagement.
- 5400.11 Sustainability assurance engagements might be performed on a wide range of sustainability matters that require specialised skills and knowledge beyond those possessed by the engagement team. A sustainability assurance engagement might therefore involve experts within, or engaged by, the firm, a network firm, or a component practitioner who assist in the engagement. Depending on the role of the individuals, they might be engagement team or sustainability assurance team members. For example:
- Individuals with expertise in a specialised area of sustainability reporting or assurance who perform assurance procedures are engagement team members. These include, for example, individuals with expertise in the measurement of specific sustainability matters or in analysing complex information produced by automated tools and techniques for the purpose of identifying unusual or unexpected relationships.
 - Individuals within, or engaged by, the firm who have direct influence over the outcome of the sustainability assurance engagement through consultation regarding technical or industry-specific issues, transactions or events for the engagement are sustainability assurance team members but not engagement team members. However, individuals who are external experts are neither engagement team nor sustainability assurance team members. [Ref.: Section 5390]
- 5400.12 If the sustainability assurance engagement is subject to an engagement quality review, the engagement quality reviewer and any other individuals performing the engagement quality review are sustainability assurance team members but not engagement team members.

Involvement of Another Practitioner in a Sustainability Assurance Engagement

- 5400.12a In performing a sustainability assurance engagement, a firm might intend to use the assurance work of another sustainability assurance practitioner but is not able to be sufficiently and appropriately involved in that work. For example:
- The sustainability assurance client might have chosen to engage the other practitioner in relation to certain sustainability information and that other practitioner might already have

completed its engagement, or might be unable to cooperate with the firm because there are restrictions on access to information or people due to law, regulation or other conditions.

- The work might be performed at a value chain component.

5400.12b When the firm intends to use the assurance work of another sustainability assurance practitioner but is not able to be sufficiently and appropriately involved in the work, that other sustainability assurance practitioner is “another practitioner” for the purposes of this Part. The individuals from another practitioner are not members of the engagement team. Section 5406 of this Part sets out specific requirements and application material when a firm intends to use the assurance work of another practitioner.

Public Interest Entities

5400.13 Some of the requirements and application material set out in this Part are applicable only to the sustainability assurance engagements of public interest entities. An entity is a public interest entity in this Part if it has been determined as such for the purposes of the audit of its financial statements in accordance with the relevant provisions in Part 4A.

5400.13a A firm performing the audit of an entity’s financial statements might decide to voluntarily treat the entity as a public interest entity. In such circumstances, this does not mean that another firm performing a sustainability assurance engagement for that entity is required to treat that entity as a public interest entity for the purposes of the sustainability assurance engagement.

5400.13b Laws and regulations might also determine an entity to be a public interest entity for the purposes of a sustainability assurance engagement.

[Paragraph 5400.14 is intentionally left blank]

5400.15 Stakeholders have heightened expectations regarding the independence of a firm performing a sustainability assurance engagement for a public interest entity. The purpose of the requirements and application material for public interest entities is to meet these expectations, thereby enhancing stakeholders’ confidence in the entity’s sustainability information that can be used for their decision-making purposes.

[Paragraph 5400.16 is intentionally left blank]

Firms Performing Both Audit and Sustainability Assurance Engagements

5400.16a Independence standards for audit and review engagements are set out in Part 4A – *Independence for Audit and Review Engagements*. If a firm performs both a sustainability assurance engagement and an audit or review engagement for the same client, the provisions in the Code applicable to audit and review engagements, including Part 4A, and this Part apply to the firm, a network firm and the audit team members.

[Paragraph 5400.17 is intentionally left blank]

Requirements and Application Material

General

R5400.18 A firm performing a sustainability assurance engagement shall be independent.

R5400.19 A firm shall apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence in relation to a sustainability assurance engagement.

NZ R5400.19.1 Where a sustainability assurance practitioner identifies multiple threats to independence, which individually may not be significant, the sustainability assurance practitioner shall evaluate the

significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.

Prohibition on Assuming Management Responsibilities

R5400.20 A firm or a network firm shall not assume a management responsibility for a sustainability assurance client.

5400.20 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

5400.20 A2 When a firm or a network firm assumes a management responsibility for a sustainability assurance client, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.

5400.20 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional ~~judgment~~judgement. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction, for example, setting sustainability policies and goals.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizising transactions.
- Deciding which recommendations of the firm or network firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for:
 - Developing criteria used by the client for reporting sustainability information.
 - The preparation and presentation of the sustainability information in accordance with the applicable sustainability reporting framework, including identifying material sustainability matters to be reported.
 - Designing, implementing, monitoring or maintaining internal control.
 - Supply chain management.
 - Designing or implementing software to collect or produce sustainability data for the client.
 - Reporting on environmental credits or offsets.
 - Resource allocation for sustainability initiatives.
- Controlling or managing bank accounts or investments.

5400.20 A4 Subject to compliance with paragraph R5400.21, providing advice and recommendations to assist the management of a sustainability assurance client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to a sustainability assurance client might create a self-review threat and is addressed in Section 5600.

R5400.21 When performing a professional activity for a sustainability assurance client, the firm shall be satisfied that client management makes all ~~judgment~~judgements and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

- (a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the activities. Such an individual, preferably within senior management, would understand:
 - (i) The objectives, nature and results of the activities; and
 - (ii) The respective client and firm or network firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the activities.

- (b) Provides oversight of the activities and evaluates the adequacy of the results of the activities performed for the client's purpose.
- (c) Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

5400.21 A1 When technology is used in performing a professional activity for a sustainability assurance client, the requirements in paragraphs R5400.20 and R5400.21 apply regardless of the nature or extent of such use of the technology.

Public Interest Entities

[Paragraphs R5400.22 to 5400.24 A1 are intentionally left blank]

R5400.25 Subject to paragraph R5400.26, when a firm has applied the independence requirements for public interest entities as described in paragraph 5400.13 in performing a sustainability assurance engagement, the firm shall publicly disclose that fact in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders.

R5400.26 As an exception to paragraph R5400.25, a firm may not make such a disclosure if doing so will result in disclosing confidential future plans of the entity.

Related Entities

R5400.27 As defined, a sustainability assurance client that is a publicly traded entity includes all of its related entities. For all other entities, references to a sustainability assurance client in this Part include related entities over which the client has direct or indirect control. When the sustainability assurance team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the sustainability assurance team shall include that related entity when identifying, evaluating and addressing threats to independence.

[Paragraphs 5400.28 to 5400.29 are intentionally left blank]

Period During which Independence is Required

R5400.30 Independence, as required by the International Independence Standards (New Zealand) in this Part, shall be maintained during both:

- (a) The engagement period; and
- (b) The reporting period for the engagement.

5400.30 A1 The engagement period starts when the engagement team begins to perform the sustainability

assurance engagement. The engagement period ends when the sustainability assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final sustainability assurance report.

5400.30 A2 The reporting period for the engagement might be the same as the period covered by the financial statements. The reporting period for the engagement does not refer to the period covered by the sustainability information from the start of historical information to the end of any forward-looking information.

R5400.31 If an entity becomes a sustainability assurance client during or after the reporting period for the engagement, the firm shall determine whether any threats to independence are created by:

- (a) Financial or business relationships with the sustainability assurance client during or after the reporting period for the engagement but before accepting the sustainability assurance engagement; or
- (b) Previous services provided to the sustainability assurance client by the firm or a network firm.

5400.31 A1 Threats to independence are created if a non-assurance service was provided to a sustainability assurance client during, or after the reporting period for the engagement, but before the engagement team begins to perform the sustainability assurance engagement, and the service would not be permitted during the engagement period.

5400.31 A2 A factor to be considered in such circumstances is whether the results of the service provided might form part of or affect the sustainability information on which the firm will express an opinion, the records underlying that information, or the internal controls over sustainability reporting.

5400.31 A3 Examples of actions that might be safeguards to address threats to independence include:

- Not assigning professionals who performed the non-assurance service to be members of the engagement team.
- Having an appropriate reviewer review the sustainability assurance work or non-assurance service as appropriate.
- Engaging another firm outside of the network to evaluate the results of the non-assurance service or having another firm outside of the network re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

5400.31 A4 A threat to independence created by the provision of a non-assurance service by a firm or a network firm prior to the sustainability assurance engagement period or prior to the reporting period for the engagement is eliminated or reduced to an acceptable level if the results of such service have been used or implemented in a period for which a sustainability assurance engagement has been undertaken by another firm.

Sustainability Assurance Clients that are Public Interest Entities

R5400.32 A firm shall not accept appointment to perform a sustainability assurance engagement for a public interest entity to which the firm or the network firm has provided a non-assurance service prior to such appointment that might create a self-review threat in relation to the sustainability information on which the firm will express an opinion unless:

- (a) The provision of such service ceases before the commencement of the sustainability assurance engagement period;

- (b) The firm takes action to address any threats to its independence; and
- (c) The firm determines that, in the view of a reasonable and informed third party, any threats to the firm's independence have been or will be eliminated or reduced to an acceptable level.

5400.32 A1 Actions that might be regarded by a reasonable and informed third party as eliminating or reducing to an acceptable level any threats to independence created by the provision of non-assurance services to a public interest entity prior to appointment to perform a sustainability assurance engagement to that entity include:

- The results of the service had been subject to sustainability assurance procedures in the course of the sustainability assurance engagement of the prior period's sustainability information by a predecessor firm.
- The firm engages a practitioner, who is not a member of the firm expressing the opinion on the sustainability information, to perform a review of the first sustainability assurance engagement affected by the self-review threat consistent with the objective of an engagement quality review.
- The public interest entity engages another firm outside of the network to:
 - (i) Evaluate the results of the non-assurance service; or
 - (ii) Re-perform the service,
 to the extent necessary to enable the other firm to take responsibility for the result of the service.

[Paragraphs 5400.33 to 5400.39 are intentionally left blank]

Communication with those Charged with Governance

5400.40 A1 Paragraphs R5300.9 and R5300.10 set out requirements with respect to communicating with those charged with governance.

5400.40 A2 Even when not required by the Code, applicable professional standards, laws or regulations, regular communication is encouraged between a firm and those charged with governance of the client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication enables those charged with governance to:

- (a) Consider the firm's ~~judgment~~judgements in identifying and evaluating threats;
- (b) Consider how threats have been addressed including the appropriateness of safeguards when they are available and capable of being applied; and
- (c) Take appropriate action.

Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

[Paragraphs 5400.41 to 5400.49 are intentionally left blank]

Network Firms

5400.50 A1 Firms frequently form larger structures with other firms and entities to enhance their ability to provide professional services. Whether these larger structures create a network depends on the particular facts and circumstances. It does not depend on whether the firms and entities are legally separate and distinct.

R5400.51 A network firm shall be independent of the sustainability assurance clients of the other firms within

the network as required by this Part.

5400.51 A1 The independence requirements in this Part that apply to a network firm apply to any entity that meets the definition of a network firm. It is not necessary for the entity also to meet the definition of a firm. For example, a consulting practice or professional law practice might be a network firm but not a firm.

R5400.52 When associated with a larger structure of other firms and entities, a firm shall:

- (a) Exercise professional ~~judgment~~judgement to determine whether a network is created by such a larger structure;
- (b) Consider whether a reasonable and informed third party would be likely to conclude that the other firms and entities in the larger structure are associated in such a way that a network exists; and
- (c) Apply such ~~judgment~~judgement consistently throughout such a larger structure.

R5400.53 When determining whether a network is created by a larger structure of firms and other entities, a firm shall conclude that a network exists when such a larger structure is aimed at co-operation and:

- (a) It is clearly aimed at profit or cost sharing among the entities within the structure. (Ref: Para. 5400.53 A2);
- (b) The entities within the structure share common ownership, control or management. (Ref: Para. 5400.53 A3);
- (c) The entities within the structure share common quality management policies and procedures. (Ref: Para. 5400.53 A4);
- (d) The entities within the structure share a common business strategy. (Ref: Para. 5400.53 A5);
- (e) The entities within the structure share the use of a common brand name. (Ref: Para. 5400.53 A6, 5400.53 A7); or
- (f) The entities within the structure share a significant part of professional resources. (Ref: Para 5400.53 A8, 5400.53 A9).

5400.53 A1 There might be other arrangements between firms and entities within a larger structure that constitute a network, in addition to those arrangements described in paragraph R5400.53. However, a larger structure might be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network.

5400.53 A2 The sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of sustainability assurance methodologies, manuals or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity jointly to provide a service or develop a product does not in itself create a network. (Ref: Para. R5400.53(a)).

5400.53 A3 Common ownership, control or management might be achieved by contract or other means. (Ref: Para. R5400.53(b)).

5400.53 A4 Common quality management policies and procedures are those designed, implemented and operated across the larger structure. (Ref: Para. R5400.53(c)).

5400.53 A5 Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not a network firm merely because it co-operates with another

entity solely to respond jointly to a request for a proposal for the provision of a professional service. (Ref: Para. R5400.53(d)).

5400.53 A6 A common brand name includes common initials or a common name. A firm is using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name when a leader of the firm signs a sustainability assurance report. (Ref: Para. R5400.53(e)).

5400.53 A7 Even if a firm does not belong to a network and does not use a common brand name as part of its firm name, it might appear to belong to a network if its stationery or promotional materials refer to the firm being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such membership, a perception might be created that the firm belongs to a network. (Ref: Para. R5400.53(e)).

5400.53 A8 Professional resources include:

- Common systems that enable firms to exchange information such as client data, billing and time records.
- Leaders and other personnel.
- Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements.
- Sustainability assurance methodology or sustainability assurance manuals.
- Training courses and facilities. (Ref: Para. R5400.53(f)).

5400.53 A9 Whether the shared professional resources are significant depends on the circumstances. For example:

- The shared resources might be limited to common sustainability assurance methodology or sustainability assurance manuals, with no exchange of personnel or client or market information. In such circumstances, it is unlikely that the shared resources would be significant. The same applies to a common training endeavour.
- The shared resources might involve the exchange of personnel or information, such as where personnel are drawn from a shared pool, or where a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow. In such circumstances, a reasonable and informed third party is more likely to conclude that the shared resources are significant. (Ref: Para. R5400.53(f)).

R5400.54 If a firm or a network sells a part of its practice, and that part continues to use wholly or partly the firm's or network's name for a limited time, the relevant entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

5400.54 A1 The agreement for the sale of a part of a practice might provide that, for a limited period of time, that part can continue to use wholly or partly the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances, while the two entities might be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation. The two entities are therefore not network firms.

[Paragraphs 5400.55 to 5400.59 are intentionally left blank]

General Documentation of Independence for Sustainability Assurance Engagements

R5400.60 A firm shall document conclusions regarding compliance with the International Independence Standards ([New Zealand](#)) in this Part, and the substance of any relevant discussions that support

those conclusions. In particular:

- (a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and
- (b) When a threat required significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

5400.60 A1 Documentation provides evidence of the firm's ~~judgment~~judgements in forming conclusions regarding compliance with the International Independence Standards (New Zealand) in this Part. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

[Paragraphs 5400.61 to 5400.69 are intentionally left blank]

Mergers and Acquisitions

When a Client Merger Creates a Threat

5400.70 A1 An entity might become a related entity of a sustainability assurance client because of a merger or acquisition. A threat to independence and, therefore, to the ability of a firm to continue a sustainability assurance engagement might be created by previous or current interests or relationships between a firm or network firm and such a related entity.

R5400.71 In the circumstances set out in paragraph 5400.70 A1,

- (a) The firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account any actions taken to address the threat, might affect its independence and therefore its ability to continue the sustainability assurance engagement after the effective date of the merger or acquisition; and
- (b) Subject to paragraph R5400.72, the firm shall take steps to end any interests or relationships that are not permitted by the Code by the effective date of the merger or acquisition.

R5400.72 As an exception to paragraph R5400.71(b), if the interest or relationship cannot reasonably be ended by the effective date of the merger or acquisition, the firm shall:

- (a) Evaluate the threat that is created by the interest or relationship; and
- (b) Discuss with those charged with governance the reasons why the interest or relationship cannot reasonably be ended by the effective date and the evaluation of the level of the threat.

5400.72 A1 In some circumstances, it might not be reasonably possible to end an interest or relationship creating a threat by the effective date of the merger or acquisition. This might be because the firm provides a non-assurance service to the related entity, which the entity is not able to transition in an orderly manner to another provider by that date.

5400.72 A2 Factors that are relevant in evaluating the level of a threat created by mergers and acquisitions when there are interests and relationships that cannot reasonably be ended include:

- The nature and significance of the interest or relationship.
- The nature and significance of the related entity relationship (for example, whether the related entity is a subsidiary or parent).
- The length of time until the interest or relationship can reasonably be ended.

R5400.73 If, following the discussion set out in paragraph R5400.72(b), those charged with governance request the firm to continue the sustainability assurance engagement, the firm shall do so only if:

- (a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;
- (b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Section 5600 and its subsections, will not be a member of the engagement team for the sustainability assurance engagement or the individual responsible for the engagement quality review; and
- (c) Transitional measures will be applied, as necessary, and discussed with those charged with governance.

5400.73 A1 Examples of such transitional measures include:

- Having a sustainability assurance practitioner review the sustainability assurance or non-assurance work as appropriate.
- Having a sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the sustainability information, perform a review that is consistent with the objective of an engagement quality review.
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

R5400.74 The firm might have completed a significant amount of work on the sustainability assurance engagement prior to the effective date of the merger or acquisition and might be able to complete the remaining assurance procedures within a short period of time. In such circumstances, if those charged with governance request the firm to complete the sustainability assurance engagement while continuing with an interest or relationship identified in paragraph 5400.70 A1, the firm shall only do so if it:

- (a) Has evaluated the level of the threat and discussed the results with those charged with governance;
- (b) Complies with the requirements of paragraph R5400.73(b) to (c); and
- (c) Ceases to perform the sustainability assurance engagement no later than the date that the sustainability assurance report is issued.

If Objectivity Remains Compromised

R5400.75 Even if all the requirements of paragraphs R5400.71 to R5400.74 could be met, the firm shall determine whether the circumstances identified in paragraph 5400.70 A1 create a threat that cannot be addressed such that objectivity would be compromised. If so, the firm shall cease to perform the sustainability assurance engagement.

Documentation

R5400.76 The firm shall document:

- (a) Any interests or relationships identified in paragraph 5400.70 A1 that will not be ended by the effective date of the merger or acquisition and the reasons why they will not be ended;
- (b) The transitional measures applied;
- (c) The results of the discussion with those charged with governance; and

- (d) The reasons why the previous and current interests and relationships do not create a threat such that objectivity would be compromised.

[Paragraphs 5400.77 to 5400.79 are intentionally left blank.]

Breach of an Independence Provision for Sustainability Assurance Engagements

When a Firm Identifies a Breach

R5400.80 If a firm concludes that a breach of an independence requirement in this Part has occurred, the firm shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b) Consider whether any legal or regulatory requirements apply to the breach and, if so:
 - (i) Comply with those requirements; and
 - (ii) Consider reporting the breach to a professional or regulatory body or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;
- (c) Promptly communicate the breach in accordance with its policies and procedures to:
 - (i) The engagement leader;
 - (ii) The individual with operational responsibility for compliance with independence requirements;
 - (iii) Other relevant personnel in the firm and, where appropriate, the network; and
 - (iv) Those subject to the independence requirements in Part 5 who need to take appropriate action;
- (d) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue a sustainability assurance report; and
- (e) Depending on the significance of the breach, determine:
 - (i) Whether to end the sustainability assurance engagement; or
 - (ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

In making this determination, the firm shall exercise professional ~~judgment~~judgement and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue a sustainability assurance report.

5400.80 A1 A breach of an independence provision of this Part might occur despite the firm having a system of quality management designed to address independence requirements. It might be necessary to end the sustainability assurance engagement because of the breach.

5400.80 A2 The significance and impact of a breach on the firm's objectivity and ability to issue a sustainability assurance report will depend on factors such as:

- The nature and duration of the breach.
- The number and nature of any previous breaches with respect to the current sustainability assurance engagement.
- Whether a sustainability assurance team member had knowledge of the interest or

relationship that created the breach.

- Whether the individual who created the breach is a sustainability assurance team member or another individual for whom there are independence requirements.
- If the breach relates to a sustainability assurance team member, the role of that individual.
- If the breach was created by providing a professional service, the impact of that service, if any, on the records underlying, or data comprising, the sustainability information on which the firm will express an opinion.
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

5400.80 A3 Depending upon the significance of the breach, examples of actions that the firm might consider to address the breach satisfactorily include:

- Removing the relevant individual from the sustainability assurance team.
- Using different individuals to conduct an additional review of the affected assurance work or to re-perform that work to the extent necessary.
- Recommending that the sustainability assurance client engage another firm to review or re-perform the affected assurance work to the extent necessary.
- If the breach relates to a non-assurance service that affects the records underlying, or data comprising, the sustainability information on which the firm will express an opinion, engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

R5400.81 If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall inform those charged with governance as soon as possible and take the steps necessary to end the sustainability assurance engagement in compliance with any applicable legal or regulatory requirements. Where ending the engagement is not permitted by laws or regulations, the firm shall comply with any reporting or disclosure requirements.

R5400.82 If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss with those charged with governance:

- (a) The significance of the breach, including its nature and duration;
- (b) How the breach occurred and how it was identified;
- (c) The action proposed or taken and why the action will satisfactorily address the consequences of the breach and enable the firm to issue a sustainability assurance report;
- (d) The conclusion that, in the firm's professional ~~judgment~~judgement, objectivity has not been compromised and the rationale for that conclusion; and
- (e) Any steps proposed or taken by the firm to reduce or avoid the risk of further breaches occurring.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

Communication of Breaches to Those Charged with Governance

5400.83 A1 Paragraphs R5300.9 and R5300.10 set out requirements with respect to communicating with those charged with governance.

- R5400.84** With respect to breaches, the firm shall communicate in writing to those charged with governance:
- (a) All matters discussed in accordance with paragraph R5400.82 and obtain the concurrence of those charged with governance that action can be, or has been, taken to satisfactorily address the consequences of the breach; and
 - (b) A description of:
 - (i) The firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained; and
 - (ii) Any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.
- R5400.85** If those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R5400.80(e)(ii) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the sustainability assurance engagement in accordance with paragraph R5400.81.

Breaches Before the Previous Sustainability Assurance Report Was Issued

- R5400.86** If the breach occurred prior to the issuance of the previous sustainability assurance report, the firm shall comply with the independence provisions of this Part in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue a sustainability assurance report in the current period.
- R5400.87** The firm shall also:
- (a) Consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued sustainability assurance reports, and the possibility of withdrawing such reports; and
 - (b) Discuss the matter with those charged with governance.

Documentation

- R5400.88** In complying with the requirements in paragraphs R5400.80 to R5400.87, the firm shall document:
- (a) The breach;
 - (b) The actions taken;
 - (c) The key decisions made;
 - (d) All the matters discussed with those charged with governance; and
 - (e) Any discussions with a professional or regulatory body or oversight authority.
- R5400.89** If the firm continues with the sustainability assurance engagement, it shall document:
- (a) The conclusion that, in the firm's professional ~~judgment~~judgement, objectivity has not been compromised; and
 - (b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue a sustainability assurance report.

SECTION 5405

GROUP SUSTAINABILITY ASSURANCE ENGAGEMENTS

Introduction

5405.1 Section 5400 requires a firm to be independent when performing a sustainability assurance engagement, and to apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework when performing a group sustainability assurance engagement.

Requirements and Application Material

General

- 5405.2 A1 Depending on the sustainability reporting framework, the firm might express an opinion on group sustainability information that includes information about components required to be included in the group financial statements (group components). The applicable sustainability reporting framework might also require the sustainability information to be extended to include information from other entities (for example, value chain components). Such sustainability information, including information from the value chain, constitutes group sustainability information for the purposes of this Part.
- 5405.2 A1a The firm might perform assurance work, or use the assurance work of another sustainability assurance practitioner performed, at the sustainability assurance client or at a value chain component, for purposes of the group sustainability assurance engagement. That other sustainability assurance practitioner is a component practitioner where the group sustainability assurance firm is able to be sufficiently and appropriately involved in the assurance work of that other practitioner.
- 5405.2 A1b Subsection A below sets out independence requirements and application material that are applicable to the group sustainability assurance firm, component practitioners and members of the group sustainability assurance team when assurance work is performed at a group sustainability assurance client or a group component.
- 5405.2 A1c Subsection B below sets out independence requirements and application material that are applicable to the group sustainability assurance firm, component practitioners and members of the group sustainability assurance team when assurance work is performed at a value chain component for purposes of the group sustainability assurance engagement.
- 5405.2 A1d Where the group sustainability assurance firm intends to use the assurance work of another practitioner for purposes of the group sustainability assurance engagement and the group sustainability assurance firm is unable to be sufficiently and appropriately involved in the assurance work of that practitioner, Section 5406 applies.
- 5405.2 A2 A component practitioner that participates in a group sustainability assurance engagement might separately issue an assurance opinion on the sustainability information of the component. Depending on the circumstances, the component practitioner might need to comply with different independence requirements when performing assurance work for a group sustainability assurance engagement and separately issuing an assurance opinion on the sustainability information of the component for statutory, regulatory or other reasons.
- 5405.2 A3 This section sets out independence requirements applicable when the group sustainability assurance firm or a component practitioner performs assurance work at a component. These requirements apply when the group sustainability assurance firm has determined that, to obtain evidence for purposes of the group sustainability assurance engagement, assurance procedures need to be performed on the data or information maintained by the component which underlies

the component's sustainability information. Accordingly:

- If the group sustainability assurance firm or a component practitioner performs assurance procedures on the underlying data or information maintained by the component to identify and assess or to respond to risks of material misstatement of the component's sustainability information, the group sustainability assurance firm or the component practitioner is subject to the independence requirements in this section with respect to that component.
- If the group sustainability assurance firm performs planning procedures at the group level solely to determine whether an entity or a business unit is a value chain component at which assurance work will be performed for purposes of the group sustainability assurance engagement, the group sustainability assurance firm is not subject to the independence requirements in this section with respect to that entity or business unit.
- If the group sustainability assurance firm obtains evidence about a value chain component's sustainability information without performing procedures on the underlying data or information maintained by the component, the group sustainability assurance firm is not subject to the independence requirements in this section with respect to that component.

Communication Between a Group Sustainability Assurance Firm and a Component Practitioner

R5405.3 The group engagement leader shall take responsibility to make a component practitioner aware of the relevant ethics, including independence, provisions in this Part that are applicable given the nature and the circumstances of the group sustainability assurance engagement. When making the component practitioner aware of the relevant ethics, including independence, provisions, the group sustainability assurance firm shall communicate at appropriate times the necessary information to enable the component practitioner to meet its responsibilities under this section.

5405.3 A1 Examples of matters the group sustainability assurance firm might communicate include:

- Whether the group sustainability assurance client is a public interest entity and the relevant ethics, including independence, provisions applicable to the group sustainability assurance engagement.
- The related entities and other group components within the group sustainability assurance client that are relevant to the independence considerations applicable to the component practitioner and the group sustainability assurance team members within, or engaged by, that practitioner.
- The period during which the component practitioner is required to be independent.
- Whether a sustainability assurance leader who performs work at a group component for purposes of the group sustainability assurance engagement is a key sustainability assurance leader for the group sustainability assurance engagement.

R5405.4 The group engagement leader shall take responsibility for requesting the component practitioner to confirm whether it understands and will comply with the relevant provisions of this Part that apply to the group sustainability assurance engagement. The group engagement leader shall also request the component practitioner to communicate:

- (a) Any independence matters that require significant ~~judgment~~judgement; and
- (b) In relation to those matters, the component practitioner's conclusion whether the threats to its independence are at an acceptable level, and the rationale for that conclusion.

R5405a If a matter comes to the attention of the group engagement leader that indicates that a threat to

independence exists, the group engagement leader shall evaluate the threat and take appropriate action.

A – Requirements and Application Material When Assurance Work is Performed at a Group Sustainability Assurance Client or a Group Component

Independence Considerations Applicable to Individuals

Members of the Group Sustainability Assurance Team Within, or Engaged by, a Group Sustainability Assurance Firm and Its Network Firms

R5405.5 Members of the group sustainability assurance team within, or engaged by, the group sustainability assurance firm and its network firms shall be independent of the group sustainability assurance client in accordance with the requirements of this Part that are applicable to the sustainability assurance team.

Other Members of the Group Sustainability Assurance Team

R5405.6 If a component practitioner outside the group sustainability assurance firm's network performs assurance work at a group component for purposes of the group sustainability assurance engagement, members of the group sustainability assurance team within, or engaged by, that component practitioner shall be independent of:

- (a) The group component;
- (b) The entity on whose group sustainability information the group sustainability assurance firm expresses an opinion; and
- (c) Any entity over which the entity in subparagraph (b) has direct or indirect control, provided that such entity has direct or indirect control over the group component,

in accordance with the requirements of this Part that are applicable to the sustainability assurance team.

R5405.7 In relation to related entities or other group components within the group sustainability assurance client other than those covered in paragraph R5405.6, if a component practitioner outside the group sustainability assurance firm's network performs assurance work at a group component for purposes of the group sustainability assurance engagement, a member of the group sustainability assurance team within, or engaged by, that component practitioner shall notify the component practitioner about any relationship or circumstance the individual knows, or has reason to believe, might create a threat to the individual's independence in the context of the group sustainability assurance engagement.

5405.7A1 Examples of relationships or circumstances involving the individual or any of the individual's immediate family members, as applicable, that are relevant to the individual's consideration when complying with paragraph R5405.7 include:

- A direct or material indirect financial interest in an entity that has control over the group sustainability assurance client if the group sustainability assurance client is material to that entity (see Section 5510).
- A loan or guarantee involving: (see Section 5511)
 - An entity that is not a bank or similar institution unless the loan or guarantee is immaterial; or
 - A bank or similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.

- A business relationship that is significant or involves a material financial interest (see Section 5520).
- An immediate family member who is: (see Section 5521)
 - A director or officer of an entity; or
 - An employee in a position to exert significant influence over the preparation of an entity's sustainability information data or records or sustainability information.
- The individual serving as, or having recently served as: (see Section 5522 and Section 5523)
 - A director or officer of an entity; or
 - An employee in a position to exert significant influence over the preparation of an entity's sustainability information data or records or sustainability information.

R5405.8 Upon receiving the notification as set out in paragraph R5405.7, the component practitioner shall evaluate and address any threats to independence created by the individual's relationship or circumstance.

Independence Considerations Applicable to a Group Sustainability Assurance Firm

R5405.9 A group sustainability assurance firm shall be independent of the group sustainability assurance client in accordance with the requirements of this Part that are applicable to a firm.

Independence Considerations Applicable to Network Firms of a Group Sustainability Assurance Firm

R5405.10 A network firm of the group sustainability assurance firm shall be independent of the group sustainability assurance client in accordance with the requirements of this Part that are applicable to a network firm.

Independence Considerations Applicable to Component Practitioners outside a Group Sustainability Assurance Firm's Network

All Group Sustainability Assurance Clients

R5405.11 A component practitioner outside the group sustainability assurance firm's network, performing assurance work at a group component, shall:

- (a) Be independent of the group component in accordance with the requirements of this Part that are applicable to a firm with respect to all sustainability assurance clients;
- (b) Apply the relevant requirements in paragraphs R5510.4(a), R5510.7 and R5510.9 with respect to financial interests in the entity on whose group sustainability information the group sustainability assurance firm expresses an opinion; and
- (c) Apply the relevant requirements in Section 5511 with respect to loans and guarantees involving the entity on whose group sustainability information the group sustainability assurance firm expresses an opinion.

R5405.12 When a component practitioner outside the group sustainability assurance firm's network, performing assurance work at a group component, knows, or has reason to believe, that a relationship or circumstance involving the group sustainability assurance client, beyond those addressed in paragraph R5405.11(b) and (c), is relevant to the evaluation of the component practitioner's independence from the group component, the component practitioner shall include that relationship or circumstance when identifying, evaluating and addressing threats to independence.

R5405.13 When a component practitioner outside the group sustainability assurance firm's network,

performing assurance work at a group component, knows, or has reason to believe, that a relationship or circumstance of a firm within the component practitioner's network with the group component or the group sustainability assurance client creates a threat to the component practitioner's independence, the component practitioner shall evaluate and address any such threat.

[Paragraph 5405.14 A1 is intentionally left blank]

Group Sustainability Assurance Clients that are Not Public Interest Entities

R5405.15 When the group sustainability assurance client is not a public interest entity, a component practitioner outside the group sustainability assurance firm's network performing assurance work at a group component for purposes of the group sustainability assurance engagement shall be independent of the group component in accordance with the requirements set out in this Part that are applicable to sustainability assurance clients that are not public interest entities.

5405.15 A1 Where a component practitioner outside the group sustainability assurance firm's network also performs a sustainability assurance engagement for a group component that is a public interest entity for reasons other than the group sustainability assurance engagement, for example, a statutory sustainability assurance engagement, the independence requirements that are relevant to sustainability assurance clients that are public interest entities apply to that engagement.

Group Sustainability Assurance Clients that are Public Interest Entities

Non-Assurance Services

R5405.16 Subject to paragraph R5405.17, when the group sustainability assurance client is a public interest entity, a component practitioner outside the group sustainability assurance firm's network performing assurance work at a group component shall comply with the provisions in Section 5600 that are applicable to public interest entities with respect to the provision of non-assurance services to the group component.

5405.16 A1 Where the group sustainability assurance client is a public interest entity and the group component at which assurance work is performed is not a public interest entity, the component practitioner outside the group sustainability assurance firm's network performing assurance work at that group component is prohibited from, for example:

- Providing to the group component, sustainability data and information services that might affect the sustainability information on which the component practitioner will perform assurance work (see Subsection 5601).
- Designing the information technology system, or an aspect of it, for the group component where such information technology system generates information for the group component's sustainability information, or the sustainability records underlying that information, on which the component practitioner will perform assurance work (see Subsection 5606).
- Acting in an advocacy role for the group component in resolving a dispute or litigation before a tribunal or court (see Subsection 5608).

5405.16 A2 The sustainability information on which a component practitioner outside the group sustainability assurance firm's network performs assurance procedures is relevant to the evaluation of the self-review threat that might be created by the component practitioner's provision of a non-assurance service, and therefore the application of Section 5600. For example, if the component practitioner's assurance procedures are limited to a specific item such as greenhouse gas emissions, the results of any non-assurance service that form part of or affect the sustainability records or the sustainability information related to the reporting on, or the internal controls over,

greenhouse gas emissions are relevant to the evaluation of the self-review threat.

- R5405.17** As an exception to paragraph R5405.16, a component practitioner outside the group sustainability assurance firm's network may provide a non-assurance service that is not prohibited under Section 5600 to a group component without communicating information about the proposed non-assurance service to those charged with governance of the group sustainability assurance client or obtaining their concurrence regarding the provision of that service as addressed by paragraphs R5600.22 to R5600.25.

Key Sustainability Assurance Leaders

- R5405.18** The group engagement leader shall determine whether a sustainability assurance leader who performs assurance work at a group component for purposes of the group sustainability assurance engagement is a key sustainability assurance leader for the group sustainability assurance engagement. If so, the group engagement leader shall:
- (a) Communicate that determination to that individual; and
 - (b) Indicate:
 - (i) In the case of all group sustainability assurance clients, that the individual is subject to paragraph R5411.4; and
 - (ii) In the case of group sustainability assurance clients that are public interest entities, that the individual is also subject to paragraphs R5524.6, R5540.7(c) and R5540.23.

- 5405.18 A1 A key sustainability assurance leader makes key decisions or ~~judgment~~judgements on significant matters with respect to the group sustainability information on which the group sustainability assurance firm expresses an opinion in the group sustainability assurance engagement.

Changes in Group Components

- R5405.19** When an entity that is not a related entity becomes a group component within the group sustainability assurance client, the group sustainability assurance firm shall apply the requirements in paragraphs R5400.71 to R5400.76 with respect to the change regarding the group component for purposes of the sustainability assurance engagement.

Changes in Component Practitioners that Perform Assurance Work at Group Components

All Group Sustainability Assurance Clients

- 5405.20 A1 There might be circumstances in which the group sustainability assurance firm requests another firm to perform assurance work as a component practitioner at a group component during or after the reporting period for the engagement, for example, due to a client merger or acquisition. A threat to the component practitioner's independence might be created by:
- (a) Financial or business relationships of the component practitioner with the group component during or after the reporting period for the engagement but before the component practitioner agrees to perform the assurance work; or
 - (b) Previous services provided to the group component by the component practitioner.
- 5405.20 A2 Paragraphs 5400.31 A1 to A3 set out application material that is applicable for a component practitioner's assessment of threats to independence if a non-assurance service was provided by the component practitioner to the group component during or after the reporting period for the engagement, but before the component practitioner begins to perform the assurance work for purposes of the group sustainability assurance engagement, and the service would not be permitted during the engagement period.

5405.20 A3 Paragraph 5400.31 A4 sets out application material that is applicable for a component practitioner's assessment of threats to independence if a non-assurance service was provided by the component practitioner to the group component prior to the reporting period for the engagement.

Group Sustainability Assurance Clients that are Public Interest Entities

5405.21 A1 Paragraphs R5400.32 and 5400.32 A1 are applicable when a component practitioner agrees to perform assurance work for group sustainability assurance purposes in relation to a group sustainability assurance client that is a public interest entity if the component practitioner has previously provided a non-assurance service to the group component.

5405.21 A2 Paragraphs R5600.25 and 5600.25 A1 are applicable in relation to a non-assurance service provided, either currently or previously, by a component practitioner to a group component when the group sustainability assurance client subsequently becomes a public interest entity.

Breach of an Independence Provision at a Component Practitioner

5405.22 A1 A breach of a provision of this section might occur despite a component practitioner having a system of quality management designed to address independence requirements. Paragraphs R5405.23 to R5405.29 are relevant to a group sustainability assurance firm's determination as to whether it would be able to use a component practitioner's work if a breach has occurred at the component practitioner.

5405.22 A2 In the case of a breach at a component practitioner within the group sustainability assurance firm's network, paragraphs R5400.80 to R5400.89 also apply to the group sustainability assurance firm in relation to the group sustainability assurance engagement, as applicable.

When a Component Practitioner Identifies a Breach

R5405.23 If a component practitioner concludes that a breach of this section has occurred, the component practitioner shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b) Evaluate the significance of the breach and its impact on the component practitioner's objectivity and ability to perform assurance work for purposes of the group sustainability assurance engagement;
- (c) Depending on the significance of the breach, determine whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances; and
- (d) Promptly communicate in writing the breach to the group engagement leader, including the component practitioner's assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach.

5405.23 A1 Paragraphs 5400.80 A2 and A3 set out application material relevant to the component practitioner's evaluation of the significance and impact of the breach on the component practitioner's objectivity and ability to issue an opinion or conclusion on the assurance work performed at the group component for purposes of the group sustainability assurance engagement, and its consideration of any actions that might be taken to address the consequences of the breach satisfactorily.

R5405.24 Upon receipt of the component practitioner's communication of the breach, the group engagement leader shall:

- (a) Review the component practitioner's assessment of the significance of the breach and its

impact on the component practitioner's objectivity, and any action that can be or has been taken to address the consequences of the breach;

- (b) Evaluate the group sustainability assurance firm's ability to use the work of the component practitioner for purposes of the group sustainability assurance engagement; and
- (c) Determine the need for any further action.

R5405.25 In applying paragraph R5405.24, the group engagement leader shall exercise professional ~~judgment~~ **judgement** and take into account whether a reasonable and informed third party would be likely to conclude that the component practitioner's objectivity is compromised and, therefore, the group sustainability assurance firm is unable to use the work of the component practitioner for purposes of the group sustainability assurance engagement.

5405.25 A1 If the group engagement leader determines that the consequences of the breach have been satisfactorily addressed by the component practitioner and do not compromise the component practitioner's objectivity, the group sustainability assurance firm may continue to use the work of the component practitioner for the group sustainability assurance engagement. In certain circumstances, the group engagement leader might determine that additional actions are needed to satisfactorily address the breach in order to use the component practitioner's work. Examples of such action include the group sustainability assurance firm performing specific procedures on the areas impacted by the breach or requesting the component practitioner to perform appropriate remedial work on the affected areas.

5405.25 A2 If there has been a breach by a component practitioner and the breach has not been satisfactorily addressed, the group sustainability assurance firm cannot use the work of that component practitioner. In those circumstances, the group engagement leader might find other means to obtain the necessary assurance evidence on the group component's sustainability information. Examples of such means include the group sustainability assurance firm performing the necessary assurance work at the group component or requesting another component practitioner to perform such assurance work.

Discussion with Those Charged with Governance of the Group Sustainability Assurance Client

5405.26 A1 With respect to breaches by a component practitioner within the group sustainability assurance firm's network, paragraph R5400.84 applies.

R5405.27 With respect to breaches by a component practitioner outside the group sustainability assurance firm's network, the group sustainability assurance firm shall discuss with those charged with governance of the group sustainability assurance client:

- (a) The component practitioner's assessment of the significance and impact of the breach on the component practitioner's objectivity, including the nature and duration of the breach, and the action that can be or has been taken; and
- (b) Whether
 - (i) The action will satisfactorily address, or has addressed, the consequences of the breach; or
 - (ii) The group sustainability assurance firm will use other means to obtain the necessary assurance evidence on the group component's sustainability information.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

R5405.28 The group sustainability assurance firm shall communicate in writing to those charged with governance of the group sustainability assurance client all matters discussed in accordance with paragraph R5405.27 and obtain the concurrence of those charged with governance that the action can be or has been taken to satisfactorily address the consequences of the breach.

R5405.29 If those charged with governance do not concur that the action that can be or has been taken would satisfactorily address the consequences of the breach at the component practitioner, the group sustainability assurance firm shall not use the work performed by the component practitioner for purposes of the group sustainability assurance engagement.

B – Requirements and Application Material When Assurance Work is Performed at a Value Chain Component

Independence Considerations Applicable to Individuals

Members of the Group Sustainability Assurance Team Within, or Engaged by, a Group Sustainability Assurance Firm

R5405.30A If a group sustainability assurance firm performs assurance work at a value chain component for purposes of the group sustainability assurance engagement, members of the group sustainability assurance team within, or engaged by, the group sustainability assurance firm shall be independent of that value chain component in accordance with the requirements of this Part that are applicable to the sustainability assurance team.

5405.30A A1 When the group sustainability assurance client is a public interest entity, members of the group sustainability assurance team within, or engaged by, the group sustainability assurance firm performing assurance work at a value chain component are not required to comply with the provisions that are applicable to public interest entities.

5405.30A A2 If the group sustainability assurance firm performs assurance work at a value chain component, members of the group sustainability assurance team within, or engaged by, firms within the group sustainability assurance firm's network are not subject to the independence requirements of this Part with respect to that value chain component.

Members of the Group Sustainability Assurance Team Within, or Engaged by, a Component Practitioner Within the Group Sustainability Assurance Firm's Network

R5405.30B If a component practitioner within the group sustainability assurance firm's network performs assurance work at a value chain component for purposes of the group sustainability assurance engagement, members of the group sustainability assurance team within, or engaged by, the component practitioner shall be independent of that value chain component in accordance with the requirements of this Part that are applicable to the sustainability assurance team.

5405.30B A1 When the group sustainability assurance client is a public interest entity, members of the group sustainability assurance team within, or engaged by, the component practitioner within the group sustainability assurance firm's network performing assurance work at a value chain component are not required to comply with the provisions that are applicable to public interest entities.

5405.30B A2 If a component practitioner within the group sustainability assurance firm's network performs assurance work at a value chain component, members of the group sustainability assurance team, within, or engaged by, the group sustainability assurance firm or other network firms are not subject to the independence requirements of this Part with respect to that value chain component.

Other Members of the Group Sustainability Assurance Team

R5405.31 If a component practitioner outside the group sustainability assurance firm's network performs assurance work at a value chain component for purposes of the group sustainability assurance engagement, members of the group sustainability assurance team within, or engaged by, that component practitioner shall be independent of the value chain component in accordance with the requirements of this Part that are applicable to a sustainability assurance team.

5405.31 A1 When the group sustainability assurance client is a public interest entity, members of the group sustainability assurance team within, or engaged by, the component practitioner outside the group sustainability assurance firm's network performing assurance work at a value chain component are not required to comply with the provisions that are applicable to public interest entities.

- 5405.31 A2 If a component practitioner outside the group sustainability assurance firm's network performs assurance work at a value chain component, members of the group sustainability assurance team members within, or engaged by, the group sustainability assurance firm or its network firms are not subject to the independence requirements of this Part with respect to that value chain component.

Independence Considerations Applicable to a Group Sustainability Assurance Firm

- R5405.32** A group sustainability assurance firm shall be independent of a value chain component at which the group sustainability assurance firm performs assurance work for purposes of the group sustainability assurance engagement, in accordance with the requirements of this Part that are applicable to a firm.
- 5405.32 A1 When the group sustainability assurance client is a public interest entity, the group sustainability assurance firm performing assurance work at a value chain component is not required to comply with the provisions that are applicable to public interest entities with respect to that value chain component.
- 5405.32 A2 If the group sustainability assurance firm performs assurance work at a value chain component, network firms of the group sustainability assurance firm are not subject to the independence requirements of this Part with respect to that value chain component.

Independence Considerations Applicable to Component Practitioners Within the Group Sustainability Assurance Firm's Network

- R5405.33** A component practitioner within the group sustainability assurance firm's network shall be independent of a value chain component at which the component practitioner performs assurance work for purposes of the group sustainability assurance engagement, in accordance with the requirements of this Part that are applicable to a firm.
- 5405.33 A1 When the group sustainability assurance client is a public interest entity, a component practitioner within the group sustainability assurance firm's network performing assurance work at a value chain component is not required to comply with the provisions that are applicable to public interest entities with respect to that value chain component.
- 5405.33 A2 If a component practitioner within the group sustainability assurance firm's network performs assurance work at a value chain component, the group sustainability assurance firm and other network firms are not subject to the independence requirements of this Part with respect to that value chain component.

Independence Considerations Applicable to Component Practitioners outside a Group Sustainability Assurance Firm's Network

- R5405.34** A component practitioner outside the group sustainability assurance firm's network performing assurance work at a value chain component for purposes of the group sustainability assurance engagement shall be independent of the value chain component in accordance with the requirements of this Part that are applicable to a firm.
- 5405.34 A1 When the group sustainability assurance client is a public interest entity, a component practitioner outside the group sustainability assurance firm's network performing assurance work at a value chain component is not required to comply with the provisions that are applicable to public interest entities with respect to that value chain component.
- 5405.34 A2 If a component practitioner outside a group sustainability assurance firm's network performs assurance work at a value chain component, the group sustainability assurance firm and its network firms are not subject to the independence requirements of this Part with respect to that value chain component.

Changes in Value Chain Components

R5405.35 When an entity becomes a value chain component during the reporting period for the engagement and the group sustainability assurance firm performs assurance work at the value chain component for purposes of the group sustainability assurance engagement, the group sustainability assurance firm shall apply paragraph R5400.31 with respect to the change regarding the value chain component.

Changes in Component Practitioners that Perform Assurance Work at Value Chain Components

5405.36 A1 There might be circumstances in which the group sustainability assurance firm requests another firm to perform assurance work as a component practitioner at a value chain component during or after the reporting period for the engagement. A threat to the component practitioner's independence might be created by:

- (a) Financial or business relationships of the component practitioner with the value chain component during or after the reporting period for the engagement but before the component practitioner agrees to perform the assurance work; or
- (b) Previous services provided to the value chain component by the component practitioner.

5405.36 A2 Paragraphs 5400.31 A1 to A3 set out application material that is applicable for a component practitioner's assessment of threats to independence if a non-assurance service was provided by the component practitioner to the value chain component during or after the reporting period for the engagement, but before the component practitioner begins to perform the assurance work for purposes of the group sustainability assurance engagement, and the service would not be permitted during the engagement period.

5405.36 A3 Paragraph 5400.31 A4 sets out application material that is applicable to a component practitioner's assessment of threats to independence if a non-assurance service was provided by the component practitioner to the value chain component prior to the reporting period for the engagement.

Breach of an Independence Provision at a Component Practitioner

R5405.37 If a component practitioner performing assurance work at a value chain component concludes that a breach of this section has occurred, the group sustainability assurance firm and the component practitioner shall apply, with respect to the value chain component, paragraphs 5405.22 A1 to R5405.29 of subsection A applicable to a group component.

SECTION 5406

ANOTHER PRACTITIONER WHOSE ASSURANCE WORK IS USED IN A SUSTAINABILITY ASSURANCE ENGAGEMENT

Introduction

- 5406.1 Section 5400 requires a firm to be independent when performing a sustainability assurance engagement, and to apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework when a firm intends to use the assurance work of another sustainability assurance practitioner performed at the firm's sustainability assurance client or a value chain component, and the firm is unable to be sufficiently and appropriately involved in that assurance work. Such a practitioner is referred to in this section as "another practitioner." The individuals from another practitioner are not members of the engagement team.
- 5406.2 This section does not apply if the firm intends to use non-assurance work performed by another practitioner at the firm's sustainability assurance client or a value chain component. In such circumstances, the requirement in paragraph R5300.11 applies.

Requirements and Application Material

General

- 5406.3 A1 The sustainability information, prepared on a standalone or group basis, might include information that has been or will be assured by another practitioner. Examples of such circumstance are where the client chooses to engage another practitioner in relation to certain sustainability information, or where another practitioner performs assurance work at a value chain component.
- 5406.3A2 As a firm may use the work of another practitioner for standalone or group sustainability assurance engagements, the references in this section to firm, engagement leader, sustainability assurance engagement, sustainability assurance team and sustainability assurance client also mean group sustainability assurance firm, group engagement leader, group sustainability assurance engagement, group sustainability assurance team and group sustainability assurance client, as applicable.

Using the Assurance Work of Another Practitioner Related to a Sustainability Assurance Client

Communication Between the Firm and Another Practitioner

- R5406.4** If the firm determines to use the assurance work of another practitioner relating to the sustainability information of a sustainability assurance client for purposes of the sustainability assurance engagement, the engagement leader shall take responsibility to make that practitioner aware of the relevant ethics, including independence, provisions in this Part that are applicable to the sustainability assurance client given the nature and the circumstances of the sustainability assurance engagement. When making another practitioner aware of the relevant provisions in this Part, the firm shall communicate at appropriate times the necessary information to enable that practitioner to confirm their compliance with those provisions.
- 5406.4 A1 Examples of matters the firm might communicate include:
- Whether the sustainability assurance client is a public interest entity and the relevant provisions applicable to the sustainability assurance engagement.
 - The related entities within the sustainability assurance client that are relevant to the independence considerations applicable to another practitioner.
 - The period during which independence is required.

Independence Considerations When the Firm Intends to Use the Assurance Work of Another Practitioner Performed at the Firm's Sustainability Assurance Client

R5406.5 If the firm intends to use the assurance work of another practitioner performed at the firm's sustainability assurance client, the firm shall request that practitioner to confirm that:

- (a) The practitioner meets the independence requirements in this Part applicable to a firm with respect to the entity at which the other practitioner performs assurance work; and
- (b) The individuals from that other practitioner who perform the assurance work meet the independence requirements in this Part applicable to a member of a sustainability assurance team with respect to that entity.

5406.5 A1 If the firm is not able to obtain another practitioner's confirmation of independence in accordance with paragraph R5406.5, the firm cannot conclude that the other practitioner is independent in accordance with the requirements of this Part.

Using the Assurance Work of Another Practitioner Related to a Value Chain Component

R5406.6 If the firm intends to use the assurance work of another practitioner relating to the sustainability information of a value chain component, the firm shall be satisfied that the other practitioner meets the independence requirements in this Part applicable to a firm with respect to that value chain component.

5406.6 A1 Examples of ways to meet the requirement in paragraph R5406.6 include the firm:

- Reviewing a statement of independence issued by the other practitioner in relation to the assurance work performed at the value chain component.
- Requesting the other practitioner to confirm that the practitioner meets the independence requirements of this Part applicable to a firm with respect to the value chain component.

5406.6 A2 If the firm is not able to be satisfied that the other practitioner meets the independence requirements as set out in paragraph R5406.6, the firm cannot conclude that the other practitioner is independent in accordance with the requirements of this Part for purposes of the sustainability assurance engagement

5406.6 A3 If a firm intends to use the assurance work of another practitioner relating to the sustainability information of a value chain component for the purposes of the sustainability assurance engagement, the firm is not subject to the independence requirements of this Part with respect to that value chain component.

SECTION 5410

FEES

Introduction

- 5410.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5410.2 Section 5330 sets out application material relevant to applying the conceptual framework where the level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence arising from fees charged to sustainability assurance clients.

Requirements and Application Material

General

- 5410.3 A1 Fees for professional services are usually negotiated with and paid by a sustainability assurance client and might create threats to independence. This practice is generally recognised and accepted by intended users of sustainability information.
- 5410.3 A2 When the sustainability assurance client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. As transparency can serve to better inform the views and decisions of those charged with governance and a wide range of stakeholders, this section provides for disclosure of fee-related information to both those charged with governance and stakeholders more generally for sustainability assurance clients that are public interest entities.
- 5410.3 A3 For the purposes of this section, sustainability assurance fees comprise fees or other types of remuneration for a sustainability assurance engagement.
- 5410.3 A4 If the firm also performs the audit engagement for the same client, the audit fees and fees for the sustainability assurance engagement are a matter for the firm and the client to agree. If the sustainability assurance engagement is a separate engagement, the provisions in this Part apply, in addition to the relevant provisions in Part 4A that apply to the separate audit engagement.

Fees Paid by a Sustainability Assurance Client

- 5410.4 A1 When fees are negotiated with and paid by a sustainability assurance client, this creates a self-interest threat and might create an intimidation threat to independence.
- 5410.4 A2 The application of the conceptual framework requires that before a firm or network firm accepts a sustainability assurance engagement, or any other engagement for a sustainability assurance client, the firm determines whether the threats to independence created by the fees proposed to the client are at an acceptable level. The application of the conceptual framework also requires the firm to re-evaluate such threats when facts and circumstances change during the engagement period for the sustainability assurance engagement.
- 5410.4 A3 Factors that are relevant in evaluating the level of threats created when fees for a sustainability assurance engagement, or any other engagement, are paid by the sustainability assurance client include:
- The level of the fees and the extent to which they have regard to the resources required, taking into account the firm's commercial and market priorities.
 - Any linkage between fees for the sustainability assurance engagement and those for services other than the sustainability assurance engagement and the relative size of both elements.

- The extent of any dependency between the level of the fee for, and the outcome of, the service.
- Whether the fee is for services to be provided by the firm or a network firm.
- The level of the fee in the context of the service to be provided by the firm or a network firm.
- The operating structure and the compensation arrangements of the firm and network firms.
- The significance of the client, or a third party referring the client, to the firm, network firm, engagement leader or office.
- The nature of the client, for example whether the client is a public interest entity.
- The relationship of the client to the related entities to which the services other than the sustainability assurance engagement are provided, for example when the related entity is a sister entity.
- The involvement of those charged with governance in appointing the firm providing the sustainability assurance service and agreeing fees, and the apparent emphasis they and client management place on the quality of the sustainability assurance engagement and the overall level of the fees.
- Whether the level of the fee is set by an independent third party, such as a regulatory body.
- Whether the quality of the firm's sustainability assurance work is subject to the review of an independent third party, such as an oversight body.

5410.4 A4 The conditions, policies and procedures described in paragraph 5120.15 A3 (particularly a system of quality management designed, implemented and operated by the firm in accordance with applicable quality management standards) might also impact the evaluation of whether the threats to independence are at an acceptable level.

5410.4 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an acceptable level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

Level of Sustainability Assurance Fees

5410.5 A1 Determining the fees to be charged to a sustainability assurance client, whether for the sustainability assurance engagement or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.

5410.5 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the sustainability assurance fee paid by the sustainability assurance client include:

- The firm's commercial rationale for the sustainability assurance fee.
- Whether undue pressure has been, or is being, applied by the client to reduce the sustainability assurance fee.

5410.5 A3 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who does not take part in the sustainability assurance engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
- Having an appropriate reviewer who did not take part in the sustainability assurance engagement review the work performed.

Impact of Other Services Provided to a Sustainability Assurance Client

- R5410.6** Subject to paragraph R5410.7, a firm shall not allow the sustainability assurance fee to be influenced by the provision of services other than the sustainability assurance engagement to a sustainability assurance client by the firm or a network firm.
- 5410.6 A1 The sustainability assurance fee ordinarily reflects a combination of matters, such as those identified in paragraph 5410.23 A1. However, the provision of other services to a sustainability assurance client is not an appropriate consideration in determining the sustainability assurance fee.
- R5410.7** As an exception to paragraph R5410.6, when determining the sustainability assurance fee, the firm may take into consideration the cost savings achieved as a result of experience derived from the provision of services other than the sustainability assurance engagement to a sustainability assurance client.

Contingent Fees

- 5410.8 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.
- R5410.9** A firm shall not charge directly or indirectly a contingent fee for a sustainability assurance engagement.
- R5410.10** A firm or network firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to a sustainability assurance client, if:
- (a) The fee is charged by the firm expressing the opinion on the sustainability information and the fee is material or expected to be material to that firm;
 - (b) The fee is charged by a network firm that participates in a significant part of the sustainability assurance engagement and the fee is material or expected to be material to that firm; or
 - (c) The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary ~~judgment~~judgement related to the assurance of material information in the sustainability information on which the firm will express an opinion.
- 5410.10 A1 Paragraphs R5410.9 and R5410.10 preclude a firm or a network firm from entering into certain contingent fee arrangements with a sustainability assurance client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to a sustainability assurance client, it might still impact the level of the self-interest threat.
- 5410.10 A2 Factors that are relevant in evaluating the level of such a threat include:
- The range of possible fee amounts.
 - Whether an appropriate authority determines the outcome on which the contingent fee depends.
 - Disclosure to intended users of the work performed by the firm and the basis of remuneration.
 - The nature of the service.
 - The effect of the event or transaction on the sustainability information on which the firm will express an opinion.
- 5410.10 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed.
- Obtaining an advance written agreement with the client on the basis of remuneration.

Total Fees – Proportion of Fees for Services Other than Sustainability Assurance to Sustainability Assurance Fee

5410.11 A0 Where a firm performs both an audit engagement and a sustainability assurance engagement for a sustainability assurance client, paragraphs 410.11 A1 to 410.11 A3 in Part 4A apply in the context of the fees charged by the firm and network firms to the sustainability assurance client. Where the firm is not engaged to perform an audit engagement for the client, paragraphs 5410.11 A2 to A4 apply.

5410.11 A1 The level of the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to a sustainability assurance client is generated by providing services other than the sustainability assurance engagement to the client, due to concerns about the potential loss of either the sustainability assurance engagement or other services. Such circumstances might also create an intimidation threat. A further consideration is a perception that the firm or network firm focuses on the non-sustainability assurance relationship, which might create a threat to the sustainability assurance practitioner's independence.

5410.11 A2 Factors that are relevant in evaluating the level of such threats include:

- The ratio of fees for services other than the sustainability assurance engagement to the sustainability assurance fee.
- The length of time during which a large proportion of fees for services other than the sustainability assurance engagement to the sustainability assurance fee has existed.
- The nature, scope and purposes of the services other than the sustainability assurance engagement, including:
 - Whether they are recurring services.
 - Whether law or regulation mandates the services to be performed by the firm.

5410.11 A3 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the sustainability assurance engagement or the service other than the sustainability assurance engagement review the relevant sustainability assurance work.
- Reducing the extent of services other than the sustainability assurance engagement provided to the sustainability assurance client.

Total Fees – Overdue Fees

5410.12 A1 The level of the self-interest threat might be impacted if fees payable by a sustainability assurance client for the sustainability assurance engagement or services other than the sustainability assurance engagement are overdue during the period of the sustainability assurance engagement.

5410.12 A2 It is generally expected that the firm will obtain payment of such fees before the sustainability assurance report is issued.

5410.12 A3 Factors that are relevant in evaluating the level of such a self-interest threat include:

- The significance of the overdue fees to the firm.
- The length of time the fees have been overdue.

- The firm's assessment of the ability and willingness of the sustainability assurance client to pay the overdue fees.

5410.12 A4 Examples of actions that might be safeguards to address such a threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the sustainability assurance engagement review the sustainability assurance work.

R5410.13 When a significant part of the fees due from a sustainability assurance client remains unpaid for a long time, the firm shall determine:

- (a) Whether the overdue fees might be equivalent to a loan to the client, in which case the requirements and application material set out in Section 5511 are applicable; and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the sustainability assurance engagement.

Total Fees – Fee Dependency

All Sustainability Assurance Clients

5410.14 A1 When the total fees generated from a sustainability assurance client by the firm expressing the sustainability assurance opinion represent a large proportion of the total fees of that firm, the dependence on, and concern about the potential loss of, fees from the sustainability assurance engagement and other services from that client impact the level of the self-interest threat and create an intimidation threat.

5410.14 A2 In calculating the total fees of the firm, the firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.

5410.14 A3 Factors that are relevant in evaluating the level of such self-interest and intimidation threats include:

- The operating structure of the firm.
- Whether the firm is expected to diversify such that any dependence on the sustainability assurance client is reduced.

5410.14 A4 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who is not a member of the firm review the sustainability assurance work.
- Reducing the extent of services other than the sustainability assurance engagement provided to the sustainability assurance client.
- Increasing the client base of the firm to reduce dependence on the client.
- Increasing the extent of services provided to other clients.

5410.14 A5 A self-interest or intimidation threat is created when the fees generated by a firm from a sustainability assurance client represent a large proportion of the revenue of one leader or one office of the firm.

5410.14 A6 Factors that are relevant in evaluating the level of such threats include:

- The qualitative and quantitative significance of the sustainability assurance client to the leader or office.
- The extent to which the compensation of the leader, or the leaders in the office, is dependent upon the fees generated from the client.

5410.14 A7 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the sustainability assurance engagement review the sustainability assurance work.
- Ensuring that the compensation of the leader is not significantly influenced by the fees generated from the client.
- Reducing the extent of services other than the sustainability assurance engagement provided by the leader or office to the sustainability assurance client.
- Increasing the client base of the leader or the office to reduce dependence on the client.
- Increasing the extent of services provided by the leader or the office to other clients.

Sustainability Assurance Clients that are Not Public Interest Entities

R5410.15 When for each of five consecutive years total fees from a sustainability assurance client that is not a public interest entity represent, or are likely to represent, more than 30% of the total fees received by the firm, the firm shall determine whether either of the following actions might be a safeguard to reduce the threats created to an acceptable level, and if so, apply it:

- (a) Prior to the assurance opinion being issued on the fifth year's sustainability information, have a sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the sustainability information, review the fifth year's sustainability assurance work; or
- (b) After the assurance opinion on the fifth year's sustainability information has been issued, and before the assurance opinion is issued on the sixth year's sustainability information, have a sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the sustainability information, or a professional body review the fifth year's sustainability assurance work.

R5410.16 If the total fees described in paragraph R5410.15 continue to exceed 30%, the firm shall each year determine whether either of the actions in paragraph R5410.15 applied to the relevant year's engagement might be a safeguard to address the threats created by the total fees received by the firm from the client, and if so, apply it.

R5410.17 When two or more firms are engaged to conduct a sustainability assurance engagement with respect to the client's sustainability information, the involvement of the other firm in the sustainability assurance engagement may be regarded each year as an action equivalent to that in paragraph R5410.15 (a), if:

- (a) The circumstances addressed by paragraph R5410.15 apply to only one of the firms expressing the assurance opinion; and
- (b) Each firm performs sufficient work to take full individual responsibility for the assurance opinion.

Sustainability Assurance Clients that are Public Interest Entities

R5410.18 When for each of two consecutive years the total fees from a sustainability assurance client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall determine whether, prior to the assurance opinion being issued on the second year's sustainability information, a review, consistent with the objective of an engagement quality review, performed by a sustainability assurance practitioner who is not a member of the firm expressing the opinion on the sustainability information ("pre-issuance review") might be a safeguard to reduce the threats to an acceptable level, and if so, apply it.

- R5410.19** When two or more firms are engaged to conduct a sustainability assurance engagement with respect to the client's sustainability information, the involvement of the other firm in the sustainability assurance engagement may be regarded each year as an action equivalent to that in paragraph R5410.18, if:
- (a) The circumstances addressed by paragraph R5410.18 apply to only one of the firms expressing the assurance opinion; and
 - (b) Each firm performs sufficient work to take full individual responsibility for the assurance opinion.
- R5410.20** Subject to paragraph R5410.21, if the circumstances described in paragraph R5410.18 continue for five consecutive years, the firm shall cease to be the sustainability assurance practitioner after the assurance opinion for the fifth year is issued.
- R5410.21** As an exception to paragraph R5410.20, the firm may continue to be the sustainability assurance practitioner after five consecutive years if there is a compelling reason to do so having regard to the public interest, provided that:
- (a)
 - (i) Where there is a designated regulatory or professional body in the relevant jurisdiction, the firm consults with that body and that body concurs that having the firm continue to provide the sustainability assurance service would be in the public interest; or
 - (ii) Where there is no designated regulatory or professional body in the relevant jurisdiction, the firm consults with and obtains concurrence from those charged with governance of the sustainability assurance client that having the firm continue to provide the sustainability assurance service would be in the public interest; and
 - (b) Before the assurance opinion on the sixth and any subsequent year's sustainability information is issued, the firm engages a sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the sustainability information, to perform a pre-issuance review.
- 5410.21 A1 A factor which might give rise to a compelling reason is the lack of viable alternative firms to carry out the sustainability assurance engagement, having regard to the nature and location of the client's business.

Transparency of Information Regarding Fees for Sustainability Assurance Clients that are Public Interest Entities

Communication About Fee-related Information with Those Charged with Governance

- 5410.22 A1 Communication by the firm of fee-related information (for both the sustainability assurance engagement and services other than the sustainability assurance engagement) with those charged with governance assists in their assessment of the firm's independence. Effective communication in this regard also allows for a two-way open exchange of views and information about, for example, the expectations that those charged with governance might have regarding the scope and extent of sustainability assurance work and impact on the sustainability assurance fee.

Fees for the Sustainability Assurance Engagement

- R5410.23** Subject to paragraph R5410.24, the firm shall communicate in a timely manner with those charged with governance of a sustainability assurance client that is a public interest entity:
- (a) Fees paid or payable to the firm or network firms for the sustainability assurance engagement; and

- (b) Whether the threats created by the level of those fees are at an acceptable level, and if not, any actions the firm has taken or proposes to take to reduce such threats to an acceptable level.

5410.23 A1 The objective of such communication is to provide the background and context to the fees for the sustainability assurance engagement to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- Considerations affecting the level of the fees such as:
 - The scale, complexity and geographic spread of the sustainability assurance client's operations.
 - The time spent or expected to be spent commensurate with the scope and complexity of the sustainability assurance engagement.
 - The cost of other resources utilized or expended in performing the sustainability assurance engagement.
 - The quality of record keeping and processes for sustainability information preparation.
- Adjustments to the fees quoted or charged during the period of the sustainability assurance engagement, and the reasons for any such adjustments.
- Changes to laws and regulations and professional standards relevant to the sustainability assurance engagement that impacted the fees.

5410.23 A2 The firm is encouraged to provide such information as soon as practicable and communicate proposed adjustments as appropriate.

R5410.24 As an exception to paragraph R5410.23, the firm may determine not to communicate the information set out in paragraph R5410.23 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:

- (a) The entity is consolidated into group sustainability information prepared by that other public interest entity; and
- (b) The firm or a network firm expresses an opinion on that group sustainability information.

Fees for Other Services

R5410.25 Subject to paragraph R5410.27, the firm shall communicate in a timely manner with those charged with governance of a sustainability assurance client that is a public interest entity:

- (a) The fees, other than those disclosed under paragraph R5410.23(a), charged to the client for the provision of services by the firm or a network firm during the reporting period for the engagement. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the sustainability information on which the firm will express an opinion; and
- (b) As set out in paragraph 5410.11 A1, where the firm has identified that there is an impact on the level of the self-interest threat or that there is an intimidation threat to independence created by the proportion of fees for services other than the sustainability assurance engagement relative to the sustainability assurance fee:
- (i) Whether such threats are at an acceptable level; and
 - (ii) If not, any actions that the firm has taken or proposes to take to reduce such threats to an acceptable level.

5410.25 A1 The objective of such communication is to provide the background and context to the fees for other services to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- The amount of fees for other services that are required by law or regulation.
- The nature of other services provided and their associated fees.
- Information on the nature of the services provided under a general policy approved by those charged with governance and associated fees.
- The proportion of fees referred to in paragraph R5410.25(a) to the aggregate of the fees charged by the firm and network firms for the sustainability assurance engagement.

R5410.26 The firm shall include in the communication required by paragraph R5410.25(a) the fees, other than those disclosed under paragraph R5410.23(a), charged to any other related entities over which the sustainability assurance client has direct or indirect control for the provision of services by the firm or a network firm, when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence.

5410.26 A1 Factors the firm might consider when determining whether the fees, other than those disclosed under paragraph R5410.23(a), charged to such other related entities, individually and in the aggregate, for the provision of services by the firm or a network firm are relevant to the evaluation of the firm's independence include:

- The extent of the sustainability assurance client's involvement in the appointment of the firm or network firm for the provision of such services, including the negotiation of fees.
- The significance of the fees paid by the other related entities to the firm or a network firm.
- The proportion of fees from the other related entities to the fees paid by the client.

R5410.27 As an exception to paragraph R5410.25, the firm may determine not to communicate the information set out in paragraph R5410.25 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:

- (a) The entity's sustainability information is consolidated into group sustainability information prepared by that other public interest entity; and
- (b) The firm or a network firm expresses an opinion on that group sustainability information.

Fee Dependency

R5410.28 Where the total fees from a sustainability assurance client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall communicate with those charged with governance:

- (a) That fact and whether this situation is likely to continue;
- (b) The safeguards applied to address the threats created, including, where relevant, the use of a pre-issuance review (Ref: Para R5410.18); and
- (c) Any proposal to continue the sustainability assurance engagement under paragraph R5410.21.

Public Disclosure of Fee-related Information

5410.29 A1 In view of the public interest in the assurance of sustainability information disclosed by public interest entities, it is beneficial for stakeholders to have visibility about the professional relationships between the firm and the sustainability assurance client which might reasonably be thought to be relevant to the evaluation of the firm's independence.

- R5410.30** If laws and regulations do not require a sustainability assurance client to disclose sustainability assurance fees, fees for services other than the sustainability assurance engagement paid or payable to the firm and network firms and information about fee dependency, the firm shall discuss with those charged with governance of a sustainability assurance client that is a public interest entity:
- (a) The benefit to the client's stakeholders of the client making such disclosures that are not required by laws and regulations in a manner deemed appropriate, taking into account the timing and accessibility of the information; and
 - (b) The information that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence.
- 5410.30 A1 Examples of information relating to fees that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence include:
- Comparative information of the prior year's fees for sustainability assurance and services other than the sustainability assurance engagement.
 - The nature of services and their associated fees as disclosed under paragraph R5410.31(b).
 - Safeguards applied when the total fees from the client represent or are likely to represent more than 15% of the total fees received by the firm.
- R5410.31** After the discussion with those charged with governance as set out in paragraph R5410.30, to the extent that the sustainability assurance client that is a public interest entity does not make the relevant disclosure, subject to paragraph R5410.32, the firm shall publicly disclose:
- (a) Fees paid or payable to the firm and network firms for the sustainability assurance engagement;
 - (b) Fees, other than those disclosed under (a), charged to the client for the provision of services by the firm or a network firm during the reporting period for the engagement. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control where the sustainability information of those entities is consolidated in the sustainability information on which the firm will express an opinion;
 - (c) Any fees, other than those disclosed under (a) and (b), charged to any other related entities over which the sustainability assurance client has direct or indirect control for the provision of services by the firm or a network firm when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence; and
 - (d) If applicable, the fact that the total fees received by the firm from the sustainability assurance client represent, or are likely to represent, more than 15% of the total fees received by the firm for two consecutive years, and the year that this situation first arose.
- 5410.31 A1 The firm might also disclose other information relating to fees that will enhance the users' understanding of the fees paid or payable and the firm's independence, such as the examples described in paragraph 5410.30 A1.
- 5410.31 A2 Factors the firm might consider when making the determination required by paragraph R5410.31(c) are set out in paragraph 5410.26 A1.
- 5410.31 A3 When disclosing fee-related information in compliance with paragraph R5410.31, the firm might disclose the information in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders, for example:
- On the firm's website.

- In the firm's transparency report.
- Through targeted communication to specific stakeholders, for example a letter to the shareholders.
- In the sustainability assurance report.

R5410.32 As an exception to paragraph R5410.31, the firm may determine not to publicly disclose the information set out in paragraph R5410.31 relating to:

- (a) A parent entity that also prepares group sustainability information provided that the firm or a network firm expresses an opinion on the group sustainability information; or
- (b) An entity (directly or indirectly) wholly-owned by another public interest entity provided that:
 - (i) That entity's sustainability information is consolidated into group sustainability information prepared by that other public interest entity; and
 - (ii) The firm or a network firm expresses an opinion on that group sustainability information.

[Paragraph R5410.33 is intentionally left blank]

SECTION 5411

COMPENSATION AND EVALUATION POLICIES

Introduction

- 5411.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5411.2 A firm's evaluation or compensation policies might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 5411.3 A1 When a sustainability assurance team member for a particular sustainability assurance client is evaluated on or compensated for selling non-assurance services to that sustainability assurance client, the level of the self-interest threat will depend on:
- (a) What proportion of the compensation or evaluation is based on the sale of such services;
 - (b) The role of the individual on the sustainability assurance team; and
 - (c) Whether the sale of such non-assurance services influences promotion decisions.
- 5411.3 A2 Examples of actions that might eliminate such a self-interest threat include:
- Revising the compensation plan or evaluation process for that individual.
 - Removing that individual from the sustainability assurance team.
- 5411.3 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the sustainability assurance team member.
- R5411.4** A firm shall not evaluate or compensate a key sustainability assurance leader based on that leader's success in selling non-assurance services to the leader's sustainability assurance client. This requirement does not preclude normal profit-sharing arrangements between leaders of a firm.

SECTION 5420

GIFTS AND HOSPITALITY

Introduction

- 5420.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5420.2 Accepting gifts and hospitality from a sustainability assurance client might create a self-interest, familiarity or intimidation threat. This section sets out a specific requirement and application material relevant to applying the conceptual framework in such circumstances.

Requirement and Application Material

- R5420.3** A firm, network firm or a sustainability assurance team member shall not accept gifts and hospitality from a sustainability assurance client, unless the value is trivial and inconsequential.
- 5420.3 A1 Where a firm, network firm or sustainability assurance team member is offering or accepting an inducement to or from a sustainability assurance client, the requirements and application material set out in Section 5340 apply and non-compliance with these requirements might create threats to independence.
- 5420.3 A2 The requirements set out in Section 5340 relating to offering or accepting inducements do not allow a firm, network firm or sustainability assurance team member to accept gifts and hospitality where the intent is to improperly influence ~~behavior~~behaviour even if the value is trivial and inconsequential.

SECTION 5430

ACTUAL OR THREATENED LITIGATION

Introduction

- 5430.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5430.2 When litigation with a sustainability assurance client occurs, or appears likely, self-interest and intimidation threats are created. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Application Material

General

- 5430.3 A1 The relationship between client management and sustainability assurance team members must be characterised by complete candour and full disclosure regarding all aspects of a client's operations. Adversarial positions might result from actual or threatened litigation between a sustainability assurance client and the firm, a network firm or a sustainability assurance team member. Such adversarial positions might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.
- 5430.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The materiality of the litigation.
 - Whether the litigation relates to a prior sustainability assurance engagement.
- 5430.3 A3 If the litigation involves a sustainability assurance team member, an example of an action that might eliminate such self-interest and intimidation threats is removing that individual from the sustainability assurance team.
- 5430.3 A4 An example of an action that might be a safeguard to address such self-interest and intimidation threats is to have an appropriate reviewer review the work performed.

SECTION 5510 FINANCIAL INTERESTS

Introduction

- 5510.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5510.2 Holding a financial interest in a sustainability assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 5510.3 A1 A financial interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.
- 5510.3 A2 This section contains references to the “materiality” of a financial interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.
- 5510.3 A3 Factors that are relevant in evaluating the level of a self-interest threat created by holding a financial interest in a sustainability assurance client include:
- The role of the individual holding the financial interest.
 - Whether the financial interest is direct or indirect.
 - The materiality of the financial interest.

Financial Interests in a Sustainability Assurance Client Held by the Firm, a Network Firm, Sustainability Assurance Team Members and Others

- R5510.4** Subject to paragraph R5510.5, a direct financial interest or a material indirect financial interest in the sustainability assurance client shall not be held by:
- (a) The firm or a network firm;
 - (b) A sustainability assurance team member, or any of that individual’s immediate family;
 - (c) Any other leader in the office in which an engagement leader practices in connection with the sustainability assurance engagement, or any of that other leader’s immediate family; or
 - (d) Any other leader or managerial employee who provides services other than sustainability assurance to the sustainability assurance client, except for any whose involvement is minimal, or any of that individual’s immediate family.
- 5510.4 A1 The office in which the engagement leader practices in connection with a sustainability assurance engagement is not necessarily the office to which that engagement leader is assigned. When the engagement leader is located in a different office from that of the other sustainability assurance team members, professional ~~judgment~~judgement is needed to determine the office in which the engagement leader practices in connection with the engagement.
- R5510.5** As an exception to paragraph R5510.4, an immediate family member identified in subparagraphs R5510.4(c) or (d) may hold a direct or material indirect financial interest in a sustainability

assurance client, provided that:

- (a) The family member received the financial interest because of employment rights, for example through pension or share option plans, and, when necessary, the firm addresses the threat created by the financial interest; and
- (b) The family member disposes of or forfeits the financial interest as soon as practicable when the family member has or obtains the right to do so, or in the case of a stock option, when the family member obtains the right to exercise the option.

Financial Interests in an Entity Controlling a Sustainability Assurance Client

R5510.6 When an entity has a controlling interest in a sustainability assurance client and the client is material to the entity, neither the firm, nor a network firm, nor a sustainability assurance team member, nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

Financial Interests in a Sustainability Assurance Client Held as Trustee

R5510.7 Paragraph R5510.4 shall also apply to a financial interest in a sustainability assurance client held in a trust for which the firm, network firm or individual acts as trustee, unless:

- (a) None of the following is a beneficiary of the trust: the trustee, the sustainability assurance team member or any of that individual's immediate family, the firm or a network firm;
- (b) The interest in the sustainability assurance client held by the trust is not material to the trust;
- (c) The trust is not able to exercise significant influence over the sustainability assurance client; and
- (d) None of the following can significantly influence any investment decision involving a financial interest in the sustainability assurance client: the trustee, the sustainability assurance team member or any of that individual's immediate family, the firm or a network firm.

Financial Interests in Common with the Sustainability Assurance Client

R5510.8 (a) A firm, or a network firm, or a sustainability assurance team member, or any of that individual's immediate family shall not hold a financial interest in an entity when a sustainability assurance client also has a financial interest in that entity, unless:

- (i) The financial interests are immaterial to the firm, the network firm, the sustainability assurance team member and that individual's immediate family member and the sustainability assurance client, as applicable; or
 - (ii) The sustainability assurance client cannot exercise significant influence over the entity.
- (b) Before an individual who has a financial interest described in paragraph R5510.8(a) can become a sustainability assurance team member, the individual or that individual's immediate family member shall either:
- (i) Dispose of the interest; or
 - (ii) Dispose of enough of the interest so that the remaining interest is no longer material.

Financial Interests in a Sustainability Assurance Client Received Unintentionally

R5510.9 If a firm, a network firm or a leader or employee of the firm or a network firm, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial

interest in a sustainability assurance client by way of an inheritance, gift, as a result of a merger or in similar circumstances and the interest would not otherwise be permitted to be held under this section, then:

- (a) If the interest is received by the firm or a network firm, or a sustainability assurance team member or any of that individual's immediate family, the financial interest shall be disposed of immediately, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; or
- (b) (i) If the interest is received by an individual who is not a sustainability assurance team member, or by any of that individual's immediate family, the financial interest shall be disposed of as soon as possible, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; and
 - (ii) Pending the disposal of the financial interest, when necessary the firm shall address the threat created.

Financial Interests – Other Circumstances

Immediate Family

5510.10 A1 A self-interest, familiarity, or intimidation threat might be created if a sustainability assurance team member, or any of that individual's immediate family, or the firm or a network firm has a financial interest in an entity when a director or officer or controlling owner of the sustainability assurance client is also known to have a financial interest in that entity.

5510.10 A2 Factors that are relevant in evaluating the level of such threats include:

- The role of the individual on the sustainability assurance team.
- Whether ownership of the entity is closely or widely held.
- Whether the interest allows the investor to control or significantly influence the entity.
- The materiality of the financial interest.

5510.10 A3 An example of an action that might eliminate such a self-interest, familiarity, or intimidation threat is removing the sustainability assurance team member with the financial interest from the sustainability assurance team.

5510.10 A4 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the sustainability assurance team member.

Close Family

5510.10 A5 A self-interest threat might be created if a sustainability assurance team member knows that a close family member has a direct financial interest or a material indirect financial interest in the sustainability assurance client.

5510.10 A6 Factors that are relevant in evaluating the level of such a threat include:

- The nature of the relationship between the sustainability assurance team member and the close family member.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest to the close family member.

5510.10 A7 Examples of actions that might eliminate such a self-interest threat include:

- Having the close family member dispose, as soon as practicable, of all of the financial interest or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.

- Removing the individual from the sustainability assurance team.

5510.10 A8 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the sustainability assurance team member.

Other Individuals

5510.10 A9 A self-interest threat might be created if a sustainability assurance team member knows that a financial interest in the sustainability assurance client is held by individuals such as:

- Leaders and professional employees of the firm or network firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R5510.4, or their immediate family members.
- Individuals with a close personal relationship with a sustainability assurance team member.

5510.10 A10 Factors that are relevant in evaluating the level of such a threat include:

- The firm's organizational, operating and reporting structure.
- The nature of the relationship between the individual and the sustainability assurance team member.

5510.10 A11 An example of an action that might eliminate such a self-interest threat is removing the sustainability assurance team member with the personal relationship from the sustainability assurance team.

5510.10 A12 Examples of actions that might be safeguards to address such a self-interest threat include:

- Excluding the sustainability assurance team member from any significant decision-making concerning the sustainability assurance engagement.
- Having an appropriate reviewer review the work of the sustainability assurance team member.

Retirement Benefit Plan of a Firm or Network Firm

5510.10 A13 A self-interest threat might be created if a retirement benefit plan of a firm or a network firm holds a direct or material indirect financial interest in a sustainability assurance client.

SECTION 5511

LOANS AND GUARANTEES

Introduction

- 5511.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5511.2 A loan or a guarantee of a loan with a sustainability assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 5511.3 A1 This section contains references to the “materiality” of a loan or guarantee. In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

Loans and Guarantees with a Sustainability Assurance Client

- R5511.4** A firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family shall not make or guarantee a loan to a sustainability assurance client unless the loan or guarantee is immaterial to:
- (a) The firm, the network firm or the individual making the loan or guarantee, as applicable; and
 - (b) The client.

Loans and Guarantees with a Sustainability Assurance Client that is a Bank or Similar Institution

- R5511.5** A firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family shall not accept a loan, or a guarantee of a loan, from a sustainability assurance client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.
- 5511.5 A1 Examples of loans include mortgages, bank overdrafts, car loans, and credit card balances.
- 5511.5 A2 Even if a firm or network firm receives a loan from a sustainability assurance client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan might create a self-interest threat if it is material to the sustainability assurance client or firm receiving the loan.
- 5511.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having the work reviewed by an appropriate reviewer, who is not a sustainability assurance team member, from a network firm that is not a beneficiary of the loan.

Deposits or Brokerage Accounts

- R5511.6** A firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family shall not have deposits or a brokerage account with a sustainability assurance client that is a bank, broker or similar institution, unless the deposit or account is held under normal commercial terms.

Loans and Guarantees with a Sustainability Assurance Client that is Not a Bank or Similar Institution

- R5511.7** A firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family shall not accept a loan from, or have a borrowing guaranteed by, a sustainability assurance client that is not a bank or similar institution, unless the loan or guarantee is immaterial

to:

- (a) The firm, the network firm, or the individual receiving the loan or guarantee, as applicable;
and
- (b) The client.

SECTION 5520

BUSINESS RELATIONSHIPS

Introduction

- 5520.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5520.2 A close business relationship with a sustainability assurance client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 5520.3 A1 This section contains references to the “materiality” of a financial interest and the “significance” of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.
- 5520.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:
- Having a financial interest in a joint venture with either the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
 - Arrangements to combine one or more services or products of the firm or a network firm with one or more services or products of the client and to market the package with reference to both parties.
 - Arrangements under which the firm or a network firm sells, resells, distributes or markets the client’s products or services, or the client sells, resells, distributes or markets the firm’s or a network firm’s products or services.
 - Arrangements under which the firm or network firm develops jointly with the client, products or services which one or both parties sell or license to third parties.
- 5520.3 A3 An example that might create a close business relationship, depending on the facts and circumstances, is an arrangement under which the firm or a network firm licenses products or solutions to or from a client.

Firm, Network Firm, Sustainability Assurance Team Member or Immediate Family Business Relationships with a Sustainability Assurance Client

- R5520.4** A firm, a network firm or a sustainability assurance team member shall not have a close business relationship with a sustainability assurance client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm, the network firm or the sustainability assurance team member, as applicable.
- 5520.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the sustainability assurance client or its management and the immediate family of a sustainability assurance team member.

Common Interests in Closely-Held Entities

- R5520.5** A firm, a network firm, a sustainability assurance team member, or any of that individual’s immediate family shall not have a business relationship involving the holding of an interest in a

closely-held entity when a sustainability assurance client or a director or officer of the client, or any group thereof, also holds an interest in that entity, unless:

- (a) The business relationship is insignificant to the firm, the network firm, or the individual as applicable, and the client;
- (b) The financial interest is immaterial to the investor or group of investors; and
- (c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.

Buying Goods or Services

5520.6 A1 The purchase of goods and services, including the licensing of technology, from a sustainability assurance client by a firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

5520.6 A2 Examples of actions that might eliminate such a self-interest threat include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the sustainability assurance team.

Providing, Selling, Reselling or Licensing Technology

5520.7 A1 Where a firm or a network firm provides, sells, resells or licenses technology:

- (a) To a sustainability assurance client; or
- (b) To an entity that provides services using such technology to sustainability assurance clients of the firm or network firm,

depending on the facts and circumstances, the requirements and application material in Section 5600 apply.

SECTION 5521

FAMILY AND PERSONAL RELATIONSHIPS

Introduction

- 5521.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5521.2 Family or personal relationships with client personnel might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 5521.3 A1 A self-interest, familiarity or intimidation threat might be created by family and personal relationships between a sustainability assurance team member and a director or officer or, depending on their role, certain employees of the sustainability assurance client.
- 5521.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The individual's responsibilities on the sustainability assurance team.
 - The role of the family member or other individual within the client, and the closeness of the relationship.

Immediate Family of a Sustainability Assurance Team Member

- 5521.4 A1 A self-interest, familiarity or intimidation threat is created when an immediate family member of a sustainability assurance team member is an employee in a position to exert significant influence over the client's sustainability information on which the firm will express an opinion.
- 5521.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The position held by the immediate family member.
 - The role of the sustainability assurance team member.
- 5521.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the sustainability assurance team.
- 5521.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the sustainability assurance team so that the sustainability assurance team member does not deal with matters that are within the responsibility of the immediate family member.
- R5521.5** An individual shall not participate as a sustainability assurance team member when any of that individual's immediate family:
- (a) Is a director or officer of the sustainability assurance client;
 - (b) Is an employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information; or
 - (c) Was in such position during any period covered by the engagement or the reporting period for the engagement.

Close Family of a Sustainability Assurance Team Member

- 5521.6 A1 A self-interest, familiarity or intimidation threat is created when a close family member of a sustainability assurance team member is:
- (a) A director or officer of the sustainability assurance client; or
 - (b) An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.
- 5521.6 A2 Factors that are relevant in evaluating the level of such threats include:
- The nature of the relationship between the sustainability assurance team member and the close family member.
 - The position held by the close family member.
 - The role of the sustainability assurance team member.
- 5521.6 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the sustainability assurance team.
- 5521.6 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the sustainability assurance team so that the sustainability assurance team member does not deal with matters that are within the responsibility of the close family member.

Other Close Relationships of a Sustainability Assurance Team Member

- R5521.7** A sustainability assurance team member shall consult in accordance with firm policies and procedures if the sustainability assurance team member has a close relationship with an individual who is not an immediate or close family member, but who is:
- (a) A director or officer of the sustainability assurance client; or
 - (b) An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.
- 5521.7 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:
- The nature of the relationship between the individual and the sustainability assurance team member.
 - The position the individual holds with the client.
 - The role of the sustainability assurance team member.
- 5521.7 A2 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the sustainability assurance team.
- 5521.7 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the sustainability assurance team so that the sustainability assurance team member does not deal with matters that are within the responsibility of the individual with whom the sustainability assurance team member has a close relationship.

Relationships of Leaders and Employees of the Firm

- R5521.8** Leaders and employees of the firm shall consult in accordance with firm policies and procedures if they are aware of a personal or family relationship between:

- (a) A leader or employee of the firm or network firm who is not a sustainability assurance team member; and
- (b) A director or officer of the sustainability assurance client or an employee of the sustainability assurance client in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.

5521.8 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:

- The nature of the relationship between the leader or employee of the firm and the director or officer or employee of the client.
- The degree of interaction of the leader or employee of the firm with the sustainability assurance team.
- The position of the leader or employee within the firm.
- The position the individual holds with the client.

5521.8 A2 Examples of actions that might be safeguards to address such self-interest, familiarity or intimidation threats include:

- Structuring the leader's or employee's responsibilities to reduce any potential influence over the sustainability assurance engagement.
- Having an appropriate reviewer review the relevant sustainability assurance work performed.

SECTION 5522

RECENT SERVICE WITH A SUSTAINABILITY ASSURANCE CLIENT

Introduction

- 5522.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5522.2 If a sustainability assurance team member has recently served as a director or officer, or employee of the sustainability assurance client, a self-interest, self-review or familiarity threat might be created. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service During Period Covered by the Sustainability Assurance Report

- R5522.3** The sustainability assurance team shall not include an individual who, during the period covered by the sustainability assurance report:
- (a) Had served as a director or officer of the sustainability assurance client; or
 - (b) Was an employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.

Service Prior to Period Covered by the Sustainability Assurance Report

- 5522.4 A1 A self-interest, self-review or familiarity threat might be created if, before the period covered by the sustainability assurance report, a sustainability assurance team member:
- (a) Had served as a director or officer of the sustainability assurance client; or
 - (b) Was an employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.

For example, a threat would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current sustainability assurance engagement.

- 5522.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position the individual held with the client.
- The length of time since the individual left the client.
- The role of the sustainability assurance team member.

- 5522.4 A3 An example of an action that might be a safeguard to address such a self-interest, self-review or familiarity threat is having an appropriate reviewer review the work performed by the sustainability assurance team member.

SECTION 5523

SERVING AS A DIRECTOR OR OFFICER OF A SUSTAINABILITY ASSURANCE CLIENT

Introduction

- 5523.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5523.2 Serving as a director or officer of a sustainability assurance client creates self-review and self-interest threats. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service as Director or Officer

R5523.3 ~~*[Amended by the NZAuASB. Refer to NZ R523.3.1] A leader or employee of the firm or a network firm shall not serve as a director or officer of a sustainability assurance client of the firm.*~~

NZ R5523.3.1 A partner or employee of the firm or a network firm shall not serve as a director, officer, liquidator or receiver of a sustainability assurance client of the firm.

Service as Company Secretary

- R5523.4** A leader or employee of the firm or a network firm shall not serve as Company Secretary for a sustainability assurance client of the firm, unless:
- (a) This practice is specifically permitted under local law, professional rules or practice;
 - (b) Management makes all relevant decisions; and
 - (c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.
- 5523.4 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as personnel management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if a leader or employee of the firm or a network firm serves as Company Secretary for a sustainability assurance client. (More information on providing non-assurance services to a sustainability assurance client is set out in Section 5600, *Provision of Non-assurance Services to a Sustainability Assurance Client*.)

SECTION 5524

EMPLOYMENT WITH A SUSTAINABILITY ASSURANCE CLIENT

Introduction

- 5524.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5524.2 Employment relationships with a sustainability assurance client might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

All Sustainability Assurance Clients

- 5524.3 A1 A familiarity or intimidation threat might be created if any of the following individuals have been a sustainability assurance team member or leader of the firm or a network firm:
- A director or officer of the sustainability assurance client.
 - An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.

Former Leader or Sustainability Assurance Team Member Restrictions

- R5524.4** The firm shall ensure that no significant connection remains between the firm or a network firm and:
- (a) A former leader who has joined a sustainability assurance client of the firm; or
 - (b) A former sustainability assurance team member who has joined the sustainability assurance client, if either has joined the sustainability assurance client as:
 - (i) A director or officer; or
 - (ii) An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.

A significant connection remains between the firm or a network firm and the individual, unless:

- (a) The individual is not entitled to any benefits or payments from the firm or network firm that are not made in accordance with fixed pre-determined arrangements;
 - (b) Any amount owed to the individual is not material to the firm or the network firm; and
 - (c) The individual does not continue to participate or appear to participate in the firm's or the network firm's business or professional activities.
- 5524.4 A1 Even if the requirements of paragraph R5524.4 are met, a familiarity or intimidation threat might still be created.
- 5524.4 A2 A familiarity or intimidation threat might also be created if a former leader of the firm or network firm has joined an entity in one of the positions described in paragraph 5524.3 A1 and the entity subsequently becomes a sustainability assurance client of the firm.
- 5524.4 A3 Factors that are relevant in evaluating the level of such threats include:
- The position the individual has taken at the client.

- Any involvement the individual will have with the sustainability assurance team.
- The length of time since the individual was a sustainability assurance team member or leader of the firm or network firm.
- The former position of the individual within the sustainability assurance team, firm or network firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

5524.4 A4 Examples of actions that might be safeguards to address such familiarity or intimidation threats include:

- Modifying the plan for the sustainability assurance engagement.
- Assigning to the sustainability assurance team individuals who have sufficient experience relative to the individual who has joined the client.
- Having an appropriate reviewer review the work of the former sustainability assurance team member.

Sustainability Assurance Team Members Entering Employment with a Client

R5524.5 A firm or network firm shall have policies and procedures that require sustainability assurance team members to notify the firm or network firm when entering employment negotiations with a sustainability assurance client.

5524.5 A1 A self-interest threat is created when a sustainability assurance team member participates in the sustainability assurance engagement while knowing that the sustainability assurance team member will, or might, join the client at some time in the future.

5524.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the sustainability assurance team.

5524.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review any significant ~~judgment~~judgements made by that individual while on the team.

Sustainability Assurance Clients that are Public Interest Entities

Key Sustainability Assurance Leaders

R5524.6 Subject to paragraph R5524.8, if an individual who was a key sustainability assurance leader with respect to a sustainability assurance client that is a public interest entity joins the client as:

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information,

independence is compromised unless, subsequent to the individual ceasing to be a key sustainability assurance leader:

- (i) The sustainability assurance client has issued assured sustainability information covering a period of not less than twelve months; and
- (ii) The individual was not a sustainability assurance team member with respect to the assurance of that sustainability information.

Chief Executive or Equivalent of the Firm

R5524.7 Subject to paragraph R5524.8, if an individual who was the Chief Executive or equivalent of the firm joins a sustainability assurance client that is a public interest entity as:

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information,

independence is compromised, unless twelve months have passed since the individual was the Chief Executive or equivalent of the firm.

Business Combinations

R5524.8 As an exception to paragraphs R5524.6 and R5524.7, independence is not compromised if the circumstances set out in those paragraphs arise as a result of a business combination and:

- (a) The position was not taken in contemplation of the business combination;
- (b) Any benefits or payments due to the former key sustainability assurance leader or Chief Executive from the firm or a network firm have been settled in full, unless made in accordance with fixed pre-determined arrangements and any amount owed to the key sustainability assurance leader or Chief Executive is not material to the firm or network firm as applicable;
- (c) The former key sustainability assurance leader or Chief Executive does not continue to participate or appear to participate in the firm's or network firm's business or professional activities; and
- (d) The firm discusses the former key sustainability assurance leader's or Chief Executive's position held with the sustainability assurance client with those charged with governance.

SECTION 5525

TEMPORARY PERSONNEL ASSIGNMENTS

Introduction

- 5525.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5525.2 The loan of personnel to a sustainability assurance client might create a self-review, advocacy or familiarity threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 5525.3 A1 Examples of actions that might be safeguards to address threats created by the loan of personnel by a firm or a network firm to a sustainability assurance client include:
- Conducting an additional review of the work performed by the loaned personnel might address a self-review threat.
 - Not including the loaned personnel as a sustainability assurance team member might address a familiarity or advocacy threat.
 - Not giving the loaned personnel sustainability assurance responsibility for any function or activity that the personnel performed during the loaned personnel assignment might address a self-review threat.
- 5525.3 A2 When familiarity and advocacy threats are created by the loan of personnel by a firm or a network firm to a sustainability assurance client, such that the firm or the network firm becomes too closely aligned with the views and interests of management, safeguards are often not available.
- R5525.4** A firm or network firm shall not loan personnel to a sustainability assurance client unless the firm or network firm is satisfied that:
- (a) Such assistance is provided only for a short period of time;
 - (b) Such personnel will not assume management responsibilities and the sustainability assurance client will be responsible for directing and supervising the activities of the personnel;
 - (c) Any threat to the independence of the firm or network firm arising from the professional services undertaken by such personnel is eliminated or safeguards are applied to reduce such threat to an acceptable level; and
 - (d) Such personnel will not undertake or be involved in professional services that the firm or network firm is prohibited from performing by the Code.

SECTION 5540

LONG ASSOCIATION OF PERSONNEL (INCLUDING LEADER ROTATION) WITH A SUSTAINABILITY ASSURANCE CLIENT

Introduction

- 5540.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5540.2 When an individual is involved in a sustainability assurance engagement, or a combination of sustainability assurance and audit engagements for the same client, over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

[Paragraph 5540.3 A1 is intentionally left blank]

All Sustainability Assurance Clients

- 5540.4 A1 Although an understanding of a sustainability assurance client and its environment is fundamental to assurance quality, a familiarity threat might be created as a result of an individual's long association as a sustainability assurance team member or audit team member with:
- (a) The sustainability assurance client and its operations;
 - (b) The sustainability assurance client's senior management; or
 - (c) The sustainability information on which the firm will express an opinion or the financial or non-financial information which forms the basis of the sustainability information.
- 5540.4 A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's ~~judgment~~judgement inappropriately.
- 5540.4 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:
- (a) In relation to the individual:
 - The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.
 - How long the individual has been an engagement team member for the sustainability assurance engagement or the audit engagement, and the nature of the roles performed.
 - The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
 - The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the sustainability assurance engagement, for example, by making key decisions or directing the work of other engagement team members.
 - The closeness of the individual's personal relationship with senior management or those charged with governance.
 - The nature, frequency and extent of the interaction between the individual and senior

management or those charged with governance.

- (b) In relation to the sustainability assurance client:
- The nature or complexity of the client's sustainability reporting issues and whether they have changed.
 - Whether there have been any recent changes in senior management or those charged with governance.
 - Whether there have been any structural changes in the client's organization which impact the nature, frequency and extent of interactions the individual might have with senior management or those charged with governance.

5540.4 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management.

5540.4 A5 An example of an action that might eliminate the familiarity and self-interest threats created by an individual being involved in a sustainability assurance engagement, or a combination of sustainability assurance and audit engagements for the same client, over a long period of time would be rotating the individual off the sustainability assurance team.

5540.4 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the sustainability assurance team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not a sustainability assurance team member review the work of the individual.
- Performing regular independent internal, or external, quality reviews of the engagement.

R5540.5 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the sustainability assurance team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the sustainability assurance engagement;
- (b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; or
- (c) Exert direct influence on the outcome of the sustainability assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R5540.7 to R5540.23 also apply.

R5540.6 Where an individual is a member of both the sustainability assurance team and the audit team for the same client and the firm decides that the level of the threats created can only be addressed by rotating the individual off both the sustainability assurance team and the audit team, the firm shall, in addition to complying with paragraph R5540.5, determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the audit engagement;
- (b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the audit engagement; or
- (c) Exert direct influence on the outcome of the audit engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be

addressed. In the case of a public interest entity, paragraphs R5540.7 to R5540.23 also apply.

Sustainability Assurance Clients that are Public Interest Entities

R5540.7 Subject to paragraphs R5540.9 to R5540.11, in respect of a sustainability assurance engagement of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time-on” period):

- (a) The engagement leader;
- (b) The individual appointed as responsible for performing the engagement quality review;
- (c) Any other key sustainability assurance leader role; or
- (d) A key audit partner.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R5540.13 to R5540.21.

R5540.8 In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R5540.7(a) to (d) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R5540.13 to R5540.15 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

5540.8 A1 For example:

- An individual who served as engagement leader for four years followed by three years off can only act thereafter as a key sustainability assurance leader on the same sustainability assurance engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph R5540.17.
- An individual who served as engagement partner for two years for the audit of the sustainability assurance client’s financial statements might be appointed as the individual responsible for performing the engagement quality review for the sustainability assurance engagement for five further years. Thereafter, that individual is required to cool off in accordance with paragraph R5540.18.

R5540.9 As an exception to paragraph R5540.7, key sustainability assurance leaders whose continuity is especially important to assurance quality may, in rare cases due to unforeseen circumstances outside the firm’s control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key sustainability assurance leader as long as the threat to independence can be eliminated or reduced to an acceptable level.

5540.9 A1 For example, a key sustainability assurance leader may remain in that role on the sustainability assurance team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement leader. In such circumstances, this will involve the firm discussing with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

R5540.10 If a sustainability assurance client becomes a public interest entity, a firm shall take into account the length of time an individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner before the client becomes a public interest entity in determining the timing of the rotation. If the individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in the capacity of a key sustainability assurance leader before rotating off the sustainability assurance engagement is seven years less the number of years already served. As an exception to paragraph R5540.7, if the individual has

served the sustainability assurance client as a key sustainability assurance leader or key audit partner for a period of six or more cumulative years when the client becomes a public interest entity, the individual may continue to serve in the capacity of a key sustainability assurance leader with the concurrence of those charged with governance for a maximum of two additional years before rotating off the sustainability assurance engagement.

R5540.10a If a firm has previously performed sustainability assurance engagements for a sustainability assurance client that is a public interest entity and these engagements were not within the scope of the International Independence Standards [\(New Zealand\)](#) in this Part, the firm shall take into account the length of time an individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner before the firm begins to undertake sustainability assurance engagements within the scope of the International Independence Standards [\(New Zealand\)](#) in this Part in determining the timing of the rotation. If the individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner for a period of five cumulative years or less when the firm first undertakes a sustainability assurance engagement within the scope of the International Independence Standards [\(New Zealand\)](#) in this Part, the number of years the individual may continue to serve the client in the capacity of a key sustainability assurance leader before rotating off the sustainability assurance engagement is seven years less the number of years already served. As an exception to paragraph R5540.7, if the individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner for a period of six or more cumulative years before the firm first undertakes a sustainability assurance engagement within the scope of the International Independence Standards [\(New Zealand\)](#) in this Part, the individual may continue to serve in the capacity of a key sustainability assurance leader with the concurrence of those charged with governance for a maximum of two additional years before rotating off the sustainability assurance engagement.

R5540.11 When a firm has only a few people with the necessary knowledge and experience to serve as a key sustainability assurance leader on the sustainability assurance engagement of a public interest entity, rotation of key sustainability assurance leaders might not be possible. As an exception to paragraph R5540.7, if an independent regulatory body in the relevant jurisdiction has provided an exemption from leader rotation in such circumstances, an individual may remain a key sustainability assurance leader for more than seven years, in accordance with such exemption. This is provided that the independent regulatory body has specified other requirements which are to be applied, such as the length of time that the key sustainability assurance leader may be exempted from rotation or a regular independent external review.

Other Considerations Relating to the Time-on Period

R5540.12 In evaluating the threats created by an individual's long association with a sustainability assurance engagement, a firm shall give particular consideration to the roles undertaken and the length of an individual's association with the sustainability assurance engagement or the audit engagement for the same client prior to the individual becoming a key sustainability assurance leader.

5540.12 A1 There might be situations where the firm, in applying the conceptual framework, concludes that it is not appropriate for an individual who is a key sustainability assurance leader to continue in that role even though the length of time served as a key sustainability assurance leader is less than seven years. iCooling-off Period

R5540.13 If the individual acted as the engagement leader for seven cumulative years, the cooling-off period shall be five consecutive years.

R5540.14 Where the individual has been appointed as responsible for the engagement quality review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

- R5540.15** If the individual has acted as a key sustainability assurance leader other than in the capacities set out in paragraphs R5540.13 and R5540.14 for seven cumulative years, the cooling-off period shall be two consecutive years.
- 5540.16 A1 The leader rotation requirements in this section are distinct from, and do not modify, the cooling-off period required by ISQM 2 as a condition for eligibility before the engagement leader can assume the role of engagement quality reviewer (see paragraph 5325.8 A4).

Service in a combination of key sustainability assurance leader or key audit partner roles

- R5540.17** If the individual acted in a combination of key sustainability assurance leader or key audit partner roles and served as the engagement leader or engagement partner for four or more cumulative years, the cooling-off period shall be five consecutive years.
- R5540.18** Subject to paragraph R5540.19(a), if the individual acted in a combination of key sustainability assurance leader or key audit partner roles and served as the key sustainability assurance leader or key audit partner responsible for the engagement quality review for four or more cumulative years, the cooling-off period shall be three consecutive years.
- R5540.19** If an individual has acted in a combination of engagement leader, engagement partner and engagement quality reviewer roles for four or more cumulative years during the time-on period, the cooling-off period shall:
- (a) As an exception to paragraph R5540.18, be five consecutive years where the individual has been the engagement leader or engagement partner for three or more years; or
 - (b) Be three consecutive years in the case of any other combination.
- R5540.20** If the individual acted in any combination of key sustainability assurance leader and key audit partner roles other than those addressed in paragraphs R5540.17 to R5540.19, the cooling-off period shall be two consecutive years.

Service at a Prior Firm

- R5540.21** In determining the number of years that an individual has been a key sustainability assurance leader or a key audit partner as set out in paragraph R5540.7, the length of the relationship shall, where relevant, include time while the individual was a key sustainability assurance leader on the sustainability assurance engagement or a key audit partner on the audit engagement for the same client at a prior firm.

[Paragraph R5540.22 is intentionally left blank]

Restrictions on Activities During the Cooling-off Period

- R5540.23** For the duration of the relevant cooling-off period, the individual shall not:
- (a) Be an engagement team member or perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the sustainability assurance engagement or the audit engagement;
 - (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the sustainability assurance engagement or the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the sustainability assurance engagement or the audit engagement);
 - (c) Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the sustainability assurance client, or overseeing the relationship of the firm or a network firm with the sustainability assurance client; or

- (d)** Undertake any other role or activity not referred to above with respect to the sustainability assurance client, including the provision of non-assurance services, that would result in the individual:
 - (i)** Having significant or frequent interaction with senior management or those charged with governance; or
 - (ii)** Exerting direct influence on the outcome of the sustainability assurance engagement or the audit engagement.

5540.23 A1 The provisions of paragraph R5540.23 are not intended to prevent the individual from assuming a leadership role in the firm or a network firm, such as that of the Chief Executive or equivalent.

SECTION 5600

PROVISION OF NON-ASSURANCE SERVICES TO A SUSTAINABILITY ASSURANCE CLIENT

Introduction

- 5600.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5600.2 Firms and network firms might provide a range of non-assurance services to their sustainability assurance clients, consistent with their expertise. Providing non-assurance services to sustainability assurance clients might create threats to compliance with the fundamental principles and threats to independence.
- 5600.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to sustainability assurance clients. The subsections that follow set out specific requirements and application material that are relevant when a firm or a network firm provides certain types of non-assurance services to sustainability assurance clients and indicate the types of threats that might be created as a result.
- 5600.4 Some subsections include requirements that expressly prohibit a firm or a network firm from providing certain services to a sustainability assurance client because the threats created cannot be eliminated and safeguards are not capable of being applied to reduce the threats to an acceptable level.
- 5600.5 New business practices, the developing sustainability landscape, the evolution of financial markets and sustainability reporting, and changes in technology are some developments that make it impossible to draw up an all-inclusive list of non-assurance services that firms and network firms might provide to a sustainability assurance client. The conceptual framework and the general provisions in this section apply when a firm proposes to a client to provide a non-assurance service for which there are no specific requirements and application material.
- 5600.5a The requirements and application material in this section apply where a firm or a network firm provides non-assurance services to a sustainability assurance client and:
- (a) The results of the services will affect, or there is a risk that they will affect, the sustainability information on which the firm will express an assurance opinion, the records underlying that information, or the internal controls over sustainability reporting; or
 - (b) The services might create an advocacy, self-interest, familiarity or intimidation threat.
- 5600.6 Circumstances involving non-assurance services that might affect the sustainability information on which the firm will express an assurance opinion or the records underlying that information, include where a firm or network firm:
- (a) Uses technology to provide a non-assurance service to a sustainability assurance client; or
 - (b) Provides, sells, resells or licenses technology resulting in the provision of a non-assurance service by the firm or a network firm:
 - (i) To a sustainability assurance client; or
 - (ii) To an entity that provides services using such technology to sustainability assurance clients of the firm or network firm.
- 5600.6a Where the firm is also the entity's auditor, the requirements and application material in Section 600 apply with respect to identifying, evaluating and addressing threats to the firm's independence, in

relation to the audit engagement, that might be created by the provision of non-assurance services to the audit client. A non-assurance service related to sustainability information that does not affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion does not create a self-review or advocacy threat to independence for the audit. However, such a service might create threats to independence in relation to performing a sustainability assurance engagement for the same client where the provision of that service affects the sustainability information on which the firm will express an opinion, the records underlying that information, or the internal controls over sustainability reporting.

Requirements and Application Material

General

Non-Assurance Services Provisions in Laws or Regulations

5600.7 A1 Paragraphs R5100.6 to 5100.7 A1 set out requirements and application material relating to compliance with the Code. If there are laws and regulations in a jurisdiction relating to the provision of non-assurance services to sustainability assurance clients that differ from or go beyond those set out in this section, firms providing non-assurance services to which such provisions apply need to be aware of those differences and comply with the more stringent provisions.

Risk of Assuming Management Responsibilities when Providing a Non-Assurance Service

5600.8 A1 When a firm or a network firm provides a non-assurance service to a sustainability assurance client, there is a risk that the firm or network firm will assume a management responsibility unless the firm or network firm is satisfied that the requirements in paragraph R5400.21 have been complied with.

Accepting an Engagement to Provide a Non-Assurance Service

R5600.9 Before a firm or a network firm accepts an engagement to provide a non-assurance service to a sustainability assurance client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

Identifying and Evaluating Threats

All Sustainability Assurance Clients

5600.10 A1 A description of the categories of threats that might arise when a firm or a network firm provides a non-assurance service to a sustainability assurance client is set out in paragraph 5120.6 A3.

5600.10 A2 Factors that are relevant in identifying the different threats that might be created by providing a non-assurance service to a sustainability assurance client, and evaluating the level of such threats include:

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The client's dependency on the service, including the frequency with which the service will be provided.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.

- The extent to which the client determines significant matters of ~~judgment~~judgement. (Ref: Para. R5400.20 to R5400.21).
- Whether the outcome of the service will affect the matters reflected in the sustainability information on which the firm will express an opinion or the records underlying that information, and, if so:
 - The extent to which the outcome of the service will have a material effect on the sustainability information.
 - The degree of subjectivity involved in determining the appropriate amounts, disclosures or treatment for those matters reflected in the sustainability information.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:
 - Sustainability information on which the firm will express an opinion or the records underlying that information.
 - Internal controls over sustainability reporting.
- The degree of reliance that will be placed on the outcome of the service as part of the sustainability assurance engagement.
- The fee relating to the provision of the non-assurance service.

5600.10 A3 Subsections 5601 to 5610 include examples of additional factors that are relevant in identifying threats to independence created by providing certain non-assurance services and evaluating the level of such threats.

Materiality in relation to sustainability information

5600.11 A1 Materiality is a factor that is relevant in evaluating threats created by providing a non-assurance service to a sustainability assurance client. Subsections 5601 to 5610 refer to materiality in relation to a sustainability assurance client's sustainability information on which the firm will express an opinion. The concept of materiality in relation to sustainability assurance engagement is addressed in the relevant reporting and assurance frameworks. The determination of materiality involves the exercise of professional ~~judgment~~judgement and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the sustainability information needs of users. The applicable reporting and assurance frameworks might include principles or guidance to assist the sustainability assurance client in identifying information that might be material to users.

5600.11 A2 Where the Code expressly prohibits the provision of a non-assurance service to a sustainability assurance client, a firm or a network firm is not permitted to provide that service, regardless of the materiality of the outcome or results of the non-assurance service on the sustainability information on which the firm will express an opinion.

Providing advice and recommendations

5600.12 A1 Providing advice and recommendations might create a self-review threat. Whether providing advice and recommendations creates a self-review threat involves making the determination set out in paragraph R5600.15. Where the sustainability assurance client is not a public interest entity and a self-review threat is identified, the firm is required to apply the conceptual framework to evaluate and address the threat. If the sustainability assurance client is a public interest entity, paragraphs R5600.17 and R5600.18 apply.

Multiple non-assurance services provided to the same sustainability assurance client

R5600.13 When a firm or a network firm provides multiple non-assurance services to a sustainability assurance client, the firm shall consider whether, in addition to the threats created by each service individually, the combined effect of such services creates or impacts threats to independence.

5600.13 A1 In addition to paragraph 5600.10 A2, factors that are relevant in a firm's evaluation of the level of threats to independence created where multiple non-assurance services are provided to a sustainability assurance client might include whether:

- The combined effect of providing multiple services increases the level of threat created by each service assessed individually.
- The combined effect of providing multiple services increases the level of any threat arising from the overall relationship with the sustainability assurance client.

5600.13 A2 When the sustainability assurance practitioner is also the auditor, paragraphs R600.13 and 600.13 A1 in Part 4A apply in relation to multiple non-assurance services provided to the same client.

Self-review threats

5600.14 A1 When a firm or a network firm provides a non-assurance service to a sustainability assurance client, there might be a risk of the firm carrying out assurance procedures on its own or the network firm's work, thereby giving rise to a self-review threat. A self-review threat is the threat that a firm or a network firm will not appropriately evaluate the results of a previous ~~judgment~~judgement made or an activity performed by an individual within the firm or network firm as part of a non-assurance service on which the sustainability assurance team will rely when forming a ~~judgment~~judgement as part of a sustainability assurance engagement.

R5600.15 Before providing a non-assurance service to a sustainability assurance client, a firm or a network firm shall determine whether the provision of that service might create a self-review threat by evaluating whether there is a risk that:

- (a) The results of the service will form part of or affect the sustainability information on which the firm will express an opinion, the records underlying that information, or the internal controls over sustainability reporting; and
- (b) In the course of performing assurance work on the sustainability information on which the firm will express an opinion, the sustainability assurance team will evaluate or rely on any ~~judgment~~judgements made or activities performed by the firm or network firm when providing the service.

Sustainability Assurance Clients that are Public Interest Entities

5600.16 A1 When the sustainability assurance client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. These heightened expectations are relevant to the reasonable and informed third party test used to evaluate a self-review threat created by providing a non-assurance service to a sustainability assurance client that is a public interest entity.

5600.16 A2 Where the provision of a non-assurance service to a sustainability assurance client that is a public interest entity creates a self-review threat, that threat cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.

Self-review threats

R5600.17 A firm or a network firm shall not provide a non-assurance service to a sustainability assurance

client that is a public interest entity if the provision of that service might create a self-review threat in relation to the assurance work on the sustainability information on which the firm will express an opinion. (Ref: Para. 5600.14 A1 and R5600.15).

Providing advice and recommendations

R5600.18 As an exception to paragraph R5600.17, a firm or a network firm may provide advice and recommendations to a sustainability assurance client that is a public interest entity in relation to information or matters arising in the course of a sustainability assurance engagement provided that the firm:

- (a) Does not assume a management responsibility (Ref: Para. R5400.20 and R5400.21); and
- (b) Applies the conceptual framework to identify, evaluate and address threats, other than self-review threats, to independence that might be created by the provision of that advice.

5600.18 A1 Examples of advice and recommendations that might be provided in relation to information or matters arising in the course of a sustainability assurance engagement include:

- Advising on sustainability reporting standards or policies and sustainability information disclosure requirements.
- Advising on the appropriateness of controls related to sustainability information and the methods used in determining or establishing the sustainability information to be reported.
- Proposing an adjustment to sustainability information arising from the sustainability assurance engagement findings.
- Discussing findings on internal controls over sustainability reporting and processes and recommending improvements.
- Advising on compliance with group sustainability reporting policies.

Addressing Threats

All Sustainability Assurance Clients

5600.19 A1 Paragraphs R5120.10 to 5120.10 A2 include a requirement and application material that are relevant when addressing threats to independence, including a description of safeguards.

5600.19 A2 Threats to independence created by providing a non-assurance service or multiple services to a sustainability assurance client vary depending on the facts and circumstances of the sustainability assurance engagement and the nature of the service. Such threats might be addressed by applying safeguards or by adjusting the scope of the proposed service.

5600.19 A3 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed.
- Obtaining pre-clearance of the outcome of the service from an appropriate authority (for example, a tax authority).

5600.19 A4 Safeguards might not be available to reduce the threats created by providing a non-assurance service to a sustainability assurance client to an acceptable level. In such a situation, the application of the conceptual framework requires the firm or network firm to:

- (a) Adjust the scope of the proposed service to eliminate the circumstances that are creating the threats;
- (b) Decline or end the service that creates the threats that cannot be eliminated or reduced to an acceptable level; or
- (c) End the sustainability assurance engagement.

Communication with Those Charged With Governance Regarding Non-Assurance Services

All Sustainability Assurance Clients

5600.20 A1 Paragraphs 5400.40 A1 and 5400.40 A2 are relevant to a firm's communication with those charged with governance in relation to the provision of non-assurance services.

Sustainability Assurance Clients that are Public Interest Entities

5600.21 A1 Paragraphs R5600.22 to R5600.24 require a firm to communicate with those charged with governance of a public interest entity before the firm or network firm provides non-assurance services to entities within the corporate structure of which the public interest entity forms part that might create threats to the firm's independence from the public interest entity. The purpose of the communication is to enable those charged with governance of the public interest entity to have effective oversight of the independence of the firm that assures the sustainability information of that public interest entity.

5600.21 A2 To facilitate compliance with such requirements, a firm might agree with those charged with governance of the public interest entity a process that addresses when and with whom the firm is to communicate. Such a process might:

- Establish the procedure for the provision of information about a proposed non-assurance service which might be on an individual engagement basis, under a general policy, or on any other agreed basis.
- Identify the entities to which the process would apply, which might include other public interest entities within the corporate structure.
- Identify any services that can be provided to the entities identified in paragraph R5600.22 without specific approval of those charged with governance if they agree as a general policy that these services are not prohibited under this section and would not create threats to the firm's independence or, if any such threats are created, they would be at an acceptable level. Establish how those charged with governance of multiple public interest entities within the same corporate structure have determined that authority for approving services is to be allocated.
- Establish a procedure to be followed where the provision of information necessary for those charged with governance to evaluate whether a proposed service might create a threat to the firm's independence is prohibited or limited by professional standards, laws or regulations, or might result in the disclosure of sensitive or confidential information. Specify how any issues not covered by the process might be resolved.

R5600.22 Before a firm that undertakes assurance work on the sustainability information of a public interest entity or a network firm accepts an engagement to provide a non-assurance service to:

- (A) That public interest entity;
 - (B) Any entity that controls, directly or indirectly, that public interest entity; or
 - (C) Any entity that is controlled directly or indirectly by that public interest entity,
- the firm shall, unless already addressed when establishing a process agreed with those charged

with governance:

- (a) Inform those charged with governance of the public interest entity that the firm has determined that the provision of the service:
 - (i) Is not prohibited; and
 - (ii) Will not create a threat to the firm's independence as sustainability assurance practitioner of the public interest entity or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level; and
- (b) Provide those charged with governance of the public interest entity with information to enable them to make an informed assessment about the impact of the provision of the service on the firm's independence.

5600.22 A1 Examples of information that might be provided to those charged with governance of the public interest entity in relation to a particular non-assurance service include:

- The nature and scope of the service to be provided.
- The basis and amount of the proposed fee.
- Where the firm has identified any threats to independence that might be created by the provision of the proposed service, the basis for the firm's assessment that the threats are at an acceptable level or, if not, the actions the firm or network firm will take to eliminate or reduce any threats to independence to an acceptable level.
- Whether the combined effect of providing multiple services creates threats to independence or changes the level of previously identified threats.

R5600.23 A firm or a network firm shall not provide a non-assurance service to any of the entities referred to in paragraph R5600.22 unless those charged with governance of the public interest entity have concurred either under a process agreed with those charged with governance or in relation to a specific service with:

- (a) The firm's conclusion that the provision of the service will not create a threat to the firm's independence in providing the sustainability assurance service to the public interest entity, or that any identified threat is at an acceptable level or, if not, will be eliminated, or reduced to an acceptable level; and
- (b) The provision of that service.

R5600.24 As an exception to paragraphs R5600.22 and R5600.23, where a firm is prohibited by applicable professional standards, laws or regulations from providing information about the proposed non-assurance service to those charged with governance of the public interest entity, or where the provision of such information would result in disclosure of sensitive or confidential information, the firm may provide the proposed service provided that:

- (a) The firm provides such information as it is able without breaching its legal or professional obligations;
- (b) The firm informs those charged with governance of the public interest entity that the provision of the service will not create a threat to the firm's independence from the public interest entity, or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level; and
- (c) Those charged with governance do not disagree with the firm's conclusion in (b).

R5600.25 The firm or the network firm, having taken into account any matters raised by those charged with governance of the sustainability assurance client that is a public interest entity or by the entity referred to in paragraph R5600.22 that is the recipient of the proposed service, shall decline the

non-assurance service or the firm shall end the sustainability assurance engagement if:

- (a) The firm or the network firm is not permitted to provide any information to those charged with governance of the sustainability assurance client that is a public interest entity, unless such a situation is addressed in a process agreed in advance with those charged with governance; or
- (b) Those charged with governance of a sustainability assurance client that is a public interest entity disagree with the firm's conclusion that the provision of the service will not create a threat to the firm's independence from the client or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level.

Sustainability Assurance Client that Later Becomes a Public Interest Entity

R5600.26 A non-assurance service provided, either currently or previously, by a firm or a network firm to a sustainability assurance client compromises the firm's independence when the client becomes a public interest entity unless:

- (a) The previous non-assurance service complies with the provisions of this section that relate to sustainability assurance clients that are not public interest entities;
- (b) Non-assurance services currently in progress that are not permitted under this section for sustainability assurance clients that are public interest entities are ended before or, if that is not possible, as soon as practicable after, the client becomes a public interest entity; and
- (c) The firm and those charged with governance of the client that becomes a public interest entity agree and take further actions to address any threats to independence that are not at an acceptable level.

5600.26 A1 Examples of actions that the firm might recommend to the sustainability assurance client include engaging another firm to:

- Review or re-perform the affected sustainability assurance work to the extent necessary.
- Evaluate the results of the non-assurance service or re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

Considerations for Certain Related Entities

R5600.27 This section includes requirements that prohibit firms and network firms from providing certain non-assurance services to sustainability assurance clients. As an exception to those requirements and the requirement in paragraph R5400.20, a firm or a network firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following related entities of the client on whose sustainability information the firm will express an opinion:

- (a) An entity that has direct or indirect control over the client;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or
- (c) An entity which is under common control with the client,

provided that all of the following conditions are met:

- (i) The firm or a network firm does not express an opinion on the sustainability information of the related entity;
- (ii) The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose sustainability information the firm will express an opinion;

- (iii) The services do not create a self-review threat; and
- (iv) The firm addresses other threats created by providing such services that are not at an acceptable level.

Documentation

5600.28 A1 Documentation of the firm's conclusions regarding compliance with this section in accordance with paragraphs R5400.60 and 5400.60 A1 might include:

- Key elements of the firm's understanding of the nature of the non-assurance service to be provided and whether and how the service might impact the sustainability information on which the firm will express an opinion.
- The nature of any threat to independence that is created by providing the service to the sustainability assurance client, including whether the results of the service will be subject to sustainability assurance procedures.
- The extent of management's involvement in the provision and oversight of the proposed non-assurance service.
- Any safeguards that are applied, or other actions taken to address a threat to independence.
- The firm's rationale for determining that the service is not prohibited and that any identified threat to independence is at an acceptable level.
- In relation to the provision of a proposed non-assurance service to the entities referred to in paragraph R5600.22, the steps taken to comply with paragraphs R5600.22 to R5600.24.

SUBSECTION 5601 – SUSTAINABILITY DATA AND INFORMATION SERVICES

Introduction

5601.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing sustainability data and information services for the preparation or maintenance of sustainability data, records or information to a sustainability assurance client.

Requirements and Application Material

General

5601.2 A1 Management is responsible for the preparation and presentation of the sustainability information in accordance with the applicable sustainability reporting framework. These responsibilities include:

- Determining sustainability reporting policies and the reporting treatment in accordance with those policies.
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction, event or other matter included in the sustainability information.
- Originating or changing sustainability data entries or records.
- Determining or approving sustainability information classifications.

Paragraph R5400.20 prohibits a firm or a network firm from assuming a management responsibility.

Description of Service

- 5601.3 A1 Sustainability data and information services comprise a broad range of services including:
- Preparing sustainability data records or sustainability information that is reported.
 - Recording data, events or other matters included in the sustainability information.
 - Resolving sustainability information inaccuracies.
 - Converting existing sustainability information from one sustainability reporting framework to another.
 - Accounting and bookkeeping services that might affect the sustainability information on which the firm expresses an opinion.

Potential Threats Arising from the Provision of Sustainability Data and Information Services

All Sustainability Assurance Clients

- 5601.4 A1 Providing sustainability data and information services to a sustainability assurance client creates a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion, or the sustainability data or information records underlying that information.

Sustainability Assurance Clients that are Not Public Interest Entities

- R5601.5** A firm or a network firm shall not provide to a sustainability assurance client that is not a public interest entity sustainability data and information services that might affect the sustainability information on which the firm expresses an opinion, unless:

- (a) The services are of a routine or mechanical nature; and
- (b) The firm addresses any threats that are not at an acceptable level.

- 5601.5 A1 Sustainability data and information services that are routine or mechanical:

- (a) Involve information, data or material in relation to which the client has made any ~~judgment~~judgements or decisions that might be necessary; and
- (b) Require little or no professional ~~judgment~~judgement.

- 5601.5 A2 Sustainability data and information services can either be manual or automated. In determining whether an automated service is routine or mechanical, factors to be considered include the activities performed by, and the output of, the technology, and whether the technology provides an automated service that is based on or requires the expertise or ~~judgment~~judgement of the firm or network firm.

- 5601.5 A3 Examples of services, whether manual or automated, that might be regarded as routine or mechanical include:

- Preparing calculations or reports based on client or third party-originated data for approval by the client.
- Recording recurring data which are easily determinable from source documents, where the client has determined or approved the appropriate classification.
- Posting data coded by the client or received from third parties to the sustainability information records.
- Preparing sustainability information to be reported based on information in the client-approved records and preparing related notes based on client-approved records.

- Compiling and presenting factual sustainability data from client or third-party identified sources for comparative purposes.

The firm or a network firm may provide such services to sustainability assurance clients that are not public interest entities provided that the firm or network firm complies with the requirements of paragraph R5400.21 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in paragraph R5601.5(b).

5601.5 A4 Examples of actions that might be safeguards to address a self-review threat created when providing sustainability data and information services of a routine or mechanical nature to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed.

Sustainability Assurance Clients that are Public Interest Entities

R5601.6 A firm or a network firm shall not provide sustainability data and information services that might affect the sustainability information on which the firm expresses an opinion to a sustainability assurance client that is a public interest entity.

[Paragraph R5601.7 is intentionally left blank]

SUBSECTION 5602 – ADMINISTRATIVE SERVICES

Introduction

5602.1 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing administrative services.

Application Material

Description of Service

5602.2 A1 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations.

5602.2 A2 Examples of administrative services include:

- Word processing or document formatting.
- Preparing administrative or statutory forms for client approval.
- Submitting such forms as instructed by the client.
- Monitoring statutory filing dates and advising a sustainability assurance client of those dates.

Potential Threats Arising from the Provision of Administrative Services

All Sustainability Assurance Clients

5602.3 A1 Providing administrative services to a sustainability assurance client does not usually create a threat when such services are clerical in nature and require little to no professional ~~judgment~~judgement.

SUBSECTION 5603 – VALUATIONS AND ADVISORY SERVICES ON FORWARD-LOOKING INFORMATION

Introduction

5603.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing valuations or advisory services on forward-looking information to a sustainability assurance client.

Requirements and Application Material

Description of Service

5603.2 A1 Valuations and advisory services on forward-looking information, including forecasting, include the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques and the combination of both to compute a certain value, or range of values, for an asset, a liability or for the whole or part of an entity. For such services, the values might be non-monetary, for example, forecasting estimates of materials reserves or the amounts of hazardous substances produced by a manufacturing process.

5603.2 A2 If a firm or a network firm is requested to perform a valuation or an advisory service on forward-looking information to assist a sustainability assurance client with its tax reporting obligations or for tax planning purposes and the results of the service have no effect on the sustainability information on which the firm will express an opinion, or the records underlying that information, other than through entries related to tax, the requirements and application material set out in paragraphs 5604.17 A1 to 5604.19 A1, relating to such services, apply.

Potential Threats Arising from the Provision of Valuations and Advisory Services on Forward-looking Information

All Sustainability Assurance Clients

5603.3 A1 Providing a valuation or an advisory service on forward-looking information to a sustainability assurance client might create a self-review threat when there is a risk that the results of the service will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such a service might also create an advocacy threat.

5603.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing a valuation or an advisory service on forward-looking information to a sustainability assurance client, and evaluating the level of such threats include:

- The use and purpose of the results of the service or its inclusion in a report.
- Whether the results of the service will be made public.
- The extent to which the service methodology is supported by law or regulation, other precedent or established practice.
- The extent of the client's involvement in determining and approving the service methodology and other significant matters of ~~judgment~~judgement.
- The degree of subjectivity inherent in the item for the service involving standard or established methodologies.
- Whether the service will have a material effect on the sustainability information.
- The extent of the disclosures related to the item covered by the service in the sustainability information.
- The volatility of the values involved as a result of dependence on future events.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5603.5 applies.

Sustainability Assurance Clients that are Not Public Interest Entities

5603.3 A3 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing a valuation or an advisory service on forward-looking information to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed might address a self-review threat.

R5603.4 A firm or a network firm shall not provide a valuation or an advisory service on forward-looking information to a sustainability assurance client that is not a public interest entity if:

- (a) The service involves a significant degree of subjectivity; and
- (b) The service will have a material effect on the sustainability information on which the firm will express an opinion.

5603.4 A1 Certain valuations and advisory services on forward-looking information do not involve a significant degree of subjectivity. This is likely to be the case when the underlying assumptions are established by law or regulation or when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation or an advisory service on forward-looking information performed by two or more parties are not likely to be materially different.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5603.5 A firm or a network firm shall not provide a valuation or an advisory service on forward-looking information to a sustainability assurance client that is a public interest entity if the provision of the service might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

Advocacy Threats

5603.5 A1 An example of an action that might be a safeguard to address an advocacy threat created by providing a valuation or an advisory service on forward-looking information to a sustainability assurance client that is a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

SUBSECTION 5604 – TAX SERVICES

Introduction

5604.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a tax service to a sustainability assurance client.

Requirements and Application Material

Description of Service

- 5604.2 A1 Tax services comprise a broad range of services. This subsection deals specifically with:
- Tax return preparation.
 - Tax calculations for the purpose of preparing accounting entries or sustainability information.
 - Tax advisory services.
 - Tax planning services.
 - Tax services involving valuations.
 - Assistance in the resolution of tax disputes.
- 5604.2 A2 It is possible to consider tax services under broad headings, such as tax planning or compliance. However, such services are often interrelated in practice and might be combined with other types of non-assurance services provided by the firm such as corporate finance services. It is, therefore, impracticable to categorizise generically the threats to which specific tax services give rise.
- 5604.2 A3 While tax services are generally relevant to financial information and accounting entries, such services can also be relevant to sustainability and, where they are, might affect the sustainability information on which the firm will express an opinion or the records underlying that information.

Potential Threats Arising from the Provision of Tax Services

- 5604.3 A1 Providing tax services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such services might also create an advocacy threat.
- 5604.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing any tax service to a sustainability assurance client, and evaluating the level of such threats include:
- The particular characteristics of the engagement.
 - The level of tax expertise of the client's employees.
 - The system by which the tax authorities assess and administer the tax in question and the role of the firm or network firm in that process.
 - The complexity of the relevant tax regime and the degree of ~~judgment~~judgement necessary in applying it.

All Sustainability Assurance Clients

- R5604.4** A firm or a network firm shall not provide a tax service or recommend a transaction to a sustainability assurance client if the service or transaction relates to marketing, planning, or opining in ~~favor~~favours of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance, unless the firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail.
- 5604.4 A1 Unless the tax treatment has a basis in applicable tax law or regulation that the firm is confident is likely to prevail, providing the non-assurance service described in paragraph R5604.4 creates

self-interest, self-review and advocacy threats that cannot be eliminated and safeguards are not capable of being applied to reduce such threats to an acceptable level.

A. Tax Return Preparation

Description of Service

5604.5 A1 Tax return preparation services include:

- Assisting clients with their tax reporting obligations by drafting and compiling information, including the amount of tax due (usually on standardized forms) required to be submitted to the applicable tax authorities.
- Advising on the tax return treatment of past transactions.
- Responding on behalf of the sustainability assurance client to the tax authorities' requests for additional information and analysis (for example, providing explanations of and technical support for the approach being taken).

Potential Threats Arising from the Provision of Tax Return Preparation Services

All Sustainability Assurance Clients

5604.6 A1 Providing tax return preparation services does not usually create a threat because:

- (a) Tax return preparation services are based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice; and
- (b) Tax returns are subject to whatever review or approval process the tax authority considers appropriate.

B. Tax Calculations That Affect Sustainability Information

Description of Service

5604.7 A1 Tax calculation services involve the preparation of calculations of current and deferred tax liabilities or assets for the purpose of preparing accounting entries supporting tax assets or liabilities in the financial statements of the sustainability assurance client. In some cases, those services might also affect the sustainability information of the client.

Potential Threats Arising from the Provision of Tax Calculation Services

All Sustainability Assurance Clients

5604.8 A1 Preparing tax calculations of current and deferred tax liabilities (or assets) for a sustainability assurance client for the purpose of preparing accounting entries that support such balances creates a self-review threat where the results of those calculations affect the sustainability information on which the firm expresses an opinion.

Sustainability Assurance Clients that are Not Public Interest Entities

5604.9 A1 In addition to the factors in paragraph 5604.3 A2, a factor that is relevant in evaluating the level of self-review threat created when preparing such calculations for a sustainability assurance client is whether the calculation might have a material effect on the sustainability information on which the firm will express an opinion.

5604.9 A2 Examples of actions that might be safeguards to address such a self-review threat when the sustainability assurance client is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.

- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed.

Sustainability Assurance Clients that are Public Interest Entities

R5604.10 A firm or a network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for a sustainability assurance client that is a public interest entity if the results of the services will affect the sustainability information on which the firm will express an opinion. (Ref: Para. R5600.15 and R5600.17).

C. Tax Advisory and Tax Planning Services

Description of Service

5604.11 A1 Tax advisory and tax planning services comprise a broad range of services, such as advising the sustainability assurance client how to structure its affairs in a tax efficient manner or advising on the application of a tax law or regulation.

Potential Threats Arising from the Provision of Tax Advisory and Tax Planning Services

All Sustainability Assurance Clients

5604.12 A1 Providing tax advisory and tax planning services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such services might also create an advocacy threat.

5604.12 A2 Providing tax advisory and tax planning services will not create a self-review threat if such services:

- Are supported by a tax authority or other precedent;
- Are based on an established practice (being a practice that has been commonly used and has not been challenged by the relevant tax authority); or
- Have a basis in tax law that the firm is confident is likely to prevail.

NZ5604.12 A2.1 The firm will need a high level of confidence that the tax advisory and tax planning services have a basis in tax law that is likely to prevail. The firm will gain that confidence if there is a high probability, if viewed objectively by applying the reasonable and informed third party test, that the tax advisory and tax planning services will be likely to prevail.

5604.12 A3 In addition to paragraph 5604.3 A2, factors that are relevant in identifying self-review or advocacy threats created by providing tax advisory and tax planning services to sustainability assurance clients, and evaluating the level of such threats include:

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the sustainability information on which the firm will express an opinion.
- Whether the tax treatment is supported by a ruling or has otherwise been cleared by the tax authority before the preparation of the sustainability information on which the firm will express an opinion.
- The extent to which the outcome of the tax advice might have a material effect on the sustainability information on which the firm will express an opinion.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5604.15 applies.

NZ R5604.12 The firm shall document the factors considered and conclusions reached in determining that the tax advisory and tax planning service satisfies the conditions described in paragraph 5604.12 A2.

When Effectiveness of Tax Advice Is Dependent on a Particular Accounting Treatment or Presentation

R5604.13 A firm or a network firm shall not provide tax advisory and tax planning services to a sustainability assurance client when:

- (a) The effectiveness of the tax advice depends on a particular treatment or presentation in the sustainability information on which the firm will express an opinion; and
- (b) The sustainability assurance team has doubt as to the appropriateness of the related treatment or presentation under the relevant sustainability reporting framework.

Sustainability Assurance Clients that are Not Public Interest Entities

5604.14 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing tax advisory and tax planning services to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer, who was not involved in providing the service, review the sustainability assurance work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5604.15 A firm or a network firm shall not provide tax advisory and tax planning services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R5600.15, R5600.17, 5604.12 A2).

Advocacy Threats

5604.15 A1 Examples of actions that might be safeguards to address an advocacy threat created by providing tax advisory and tax planning services to a sustainability assurance client that is a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

D. Tax Services Involving Valuations

Description of Service

5604.16 A1 The provision of tax services involving valuations might arise in a range of circumstances including:

- Merger and acquisition transactions.
- Group restructurings and corporate reorganisations.
- Transfer pricing studies.
- Stock-based compensation arrangements.

Potential Threats Arising from the Provision of Tax Services involving Valuations

All Sustainability Assurance Clients

- 5604.17 A1 Providing a valuation for tax purposes to a sustainability assurance client might create a self-review threat when there is a risk that the results of the service will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such a service might also create an advocacy threat.
- 5604.17 A2 When a firm or a network firm performs a valuation for tax purposes to assist a sustainability assurance client with its tax reporting obligations or for tax planning purposes, the result of the valuation might:
- (a) Have no effect on the sustainability information on which the firm will express an opinion, or the records underlying that information, other than through accounting entries related to tax. In such situations, the requirements and application material set out in this subsection apply.
 - (b) Affect the sustainability information on which the firm will express an opinion, or the records underlying that information, in ways not limited to accounting entries related to tax, for example, if the valuation leads to a revaluation of assets. In such situations, the requirements and application material set out in subsection 5603 relating to valuation services apply.
- 5604.17 A3 Performing a valuation for tax purposes for a sustainability assurance client will not create a self-review threat if:
- (a) The underlying assumptions are either established by law or regulation, or are widely accepted; or
 - (b) The techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation, and the valuation is subject to external review by a tax authority or similar regulatory authority.

Sustainability Assurance Clients that are Not Public Interest Entities

- 5604.18 A1 A firm or a network firm might perform a valuation for tax purposes for a sustainability assurance client that is not a public interest entity where the result of the valuation only affects the sustainability information on which the firm will express an opinion, or the records underlying that information, through adjustments related to tax. This would not usually create threats if the effect on the sustainability information is immaterial or the valuation, as incorporated in a tax return or other filing, is subject to external review by a tax authority or similar regulatory authority.
- 5604.18 A2 If the valuation that is performed for tax purposes is not subject to an external review and the effect is material to the sustainability information on which the firm expresses an opinion, in addition to paragraph 5604.3 A2, the following factors are relevant in identifying self-review or advocacy threats created by providing those services to a sustainability assurance client that is not a public interest entity, and evaluating the level of such threats:
- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice.
 - The degree of subjectivity inherent in the valuation.
 - The reliability and extent of the underlying data.
- 5604.18 A3 Examples of actions that might be safeguards to address such threats for a sustainability assurance client that is not a public interest entity include:
- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.

- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5604.19 A firm or a network firm shall not perform a valuation for tax purposes for a sustainability assurance client that is a public interest entity if the provision of that service might create a self-review threat. (Ref: Para. R5600.15, R5600.17, 5604.17 A3).

Advocacy Threats

5604.19 A1 Examples of actions that might be safeguards to address an advocacy threat created by providing a valuation for tax purposes for a sustainability assurance client that is a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

E. Assistance in the Resolution of Tax Disputes

Description of Service

5604.20 A1 A non-assurance service to provide assistance to a sustainability assurance client in the resolution of tax disputes might arise from a tax authority's consideration of tax calculations and treatments. Such a service might include, for example, providing assistance when the tax authorities have notified the client that arguments on a particular issue have been rejected and either the tax authority or the client refers the matter for determination in a formal proceeding before a tribunal or court.

Potential Threats Arising from the Provision of Assistance in the Resolution of Tax Disputes

All Sustainability Assurance Clients

5604.21 A1 Providing assistance in the resolution of a tax dispute to a sustainability assurance client might create a self-review threat when there is a risk that the results of the service will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such a service might also create an advocacy threat.

5604.22 A1 In addition to those identified in paragraph 5604.3 A2, factors that are relevant in identifying self-review or advocacy threats created by assisting a sustainability assurance client in the resolution of tax disputes, and evaluating the level of such threats include:

- The role management plays in the resolution of the dispute.
- The extent to which the outcome of the dispute will have a material effect on the sustainability information on which the firm will express an opinion.
- Whether the firm or network firm provided the advice that is the subject of the tax dispute.
- The extent to which the matter is supported by tax law or regulation, other precedent, or established practice.
- Whether the proceedings are conducted in public.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5604.24 applies.

Sustainability Assurance Clients that are Not Public Interest Entities

5604.23 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by assisting a sustainability assurance client that is not a public interest entity in the resolution of tax disputes include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or the service performed might address a self-review threat.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5604.24 A firm or a network firm shall not provide assistance in the resolution of tax disputes to a sustainability assurance client that is a public interest entity if the provision of that assistance might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

Advocacy Threats

5604.24 A1 An example of an action that might be a safeguard to address an advocacy threat for a sustainability assurance client that is a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

Resolution of Tax Matters Including Acting as an Advocate Before a Tribunal or Court

Sustainability Assurance Clients that are Not Public Interest Entities

R5604.25 A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to a sustainability assurance client that is not a public interest entity if:

- (a) The services involve acting as an advocate for the sustainability assurance client before a tribunal or court in the resolution of a tax matter; and
- (b) The amounts involved are material to the sustainability information on which the firm will express an opinion.

Sustainability Assurance Clients that are Public Interest Entities

R5604.26 A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to a sustainability assurance client that is a public interest entity if the services involve acting as an advocate for the sustainability assurance client before a tribunal or court.

5604.27 A1 Paragraphs R5604.25 and R5604.26 do not preclude a firm or a network firm from having a continuing advisory role in relation to the matter that is being heard before a tribunal or court, for example:

- Responding to specific requests for information.
- Providing factual accounts or testimony about the work performed.
- Assisting the client in analyzing the tax issues related to the matter.

5604.27 A2 What constitutes a “tribunal or court” depends on how tax proceedings are heard in the particular jurisdiction.

SUBSECTION 5605 – INTERNAL AUDIT SERVICES

Introduction

5605.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing an internal audit service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5605.2 A1 Internal audit services comprise a broad range of activities and might involve assisting the sustainability assurance client in the performance of one or more aspects of its internal audit activities. Internal audit activities might include:

- Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements to them.
- Examining financial and operating information relevant to sustainability by:
 - Reviewing the means used to identify, measure, classify and report that financial and operating information.
 - Inquiring specifically into individual items including detailed testing of transactions, balances and procedures.
- Reviewing the economy, efficiency and effectiveness of operating activities relevant to sustainability including non-financial activities of an entity.
- Reviewing compliance with:
 - Laws, regulations and other external requirements.
 - Management policies, directives and other internal requirements.

5605.2 A2 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of those charged with governance as well as the needs and expectations of management. They might involve matters that are operational in nature that will be subject to consideration in relation to the assurance of sustainability information.

Risk of Assuming Management Responsibility When Providing an Internal Audit Service

R5605.3 Paragraph R5400.20 precludes a firm or a network firm from assuming a management responsibility. When providing an internal audit service to a sustainability assurance client, the firm shall be satisfied that:

- (a) The client designates an appropriate and competent resource, who reports to those charged with governance to:
 - (i) Be responsible at all times for internal audit activities; and
 - (ii) Acknowledge responsibility for designing, implementing, monitoring and maintaining internal control;
- (b) The client reviews, assesses and approves the scope, risk and frequency of the internal audit services;
- (c) The client evaluates the adequacy of the internal audit services and the findings resulting from their performance;
- (d) The client evaluates and determines which recommendations resulting from internal audit

services to implement and manages the implementation process; and

- (e) The client reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

5605.3 A1 Performing part of the client's internal audit activities increases the possibility that individuals within the firm or the network firm providing internal audit services will assume a management responsibility.

5605.3 A2 Examples of internal audit services that involve assuming management responsibilities include:

- Setting internal audit policies or the strategic direction of internal audit activities.
- Directing and taking responsibility for the actions of the entity's internal audit employees.
- Deciding which recommendations resulting from internal audit activities to implement.
- Reporting the results of the internal audit activities to those charged with governance on behalf of management.
- Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.
- Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm or network firm is responsible for determining the scope of the internal audit work; and might have responsibility for one or more of the matters noted above.

Potential Threats Arising from the Provision of Internal Audit Services

All Sustainability Assurance Clients

5605.4 A1 Providing internal audit services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services impact the assurance of the sustainability information on which the firm will express an opinion.

5605.4 A2 When a firm uses the work of an internal audit function in a sustainability assurance engagement, the applicable assurance standards ordinarily require the performance of procedures to evaluate the adequacy of that work. Similarly, when a firm or a network firm accepts an engagement to provide internal audit services to a sustainability assurance client, the results of those services might be used in conducting the external assurance of sustainability information. This might create a self-review threat because it is possible that the engagement team will use the results of the internal audit service for purposes of the sustainability assurance engagement without:

- (a) Appropriately evaluating those results; or
- (b) Exercising the same level of professional ~~skepticism~~ scepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm.

5605.4 A3 Factors that are relevant in identifying a self-review threat created by providing internal audit services to a sustainability assurance client, and evaluating the level of such a threat include:

- The materiality of the related sustainability information.
- The risk of misstatement of the assertions related to that sustainability information.
- The degree of reliance that the engagement team will place on the work of the internal audit service.

When a self-review threat for a sustainability assurance client that is a public interest entity has

been identified, paragraph R5605.6 applies.

Sustainability Assurance Clients that are Not Public Interest Entities

5605.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an internal audit service to a sustainability assurance client that is not a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

Sustainability Assurance Clients that are Public Interest Entities

R5605.6 A firm or a network firm shall not provide internal audit services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

5605.6 A1 Examples of the services that are prohibited under paragraph R5605.6 include internal audit services that relate to:

- The internal controls over sustainability reporting.
- Sustainability information systems that generate information for the client's sustainability information on which the firm will express an opinion or the records underlying that information.
- Amounts or disclosures that relate to the sustainability information on which the firm will express an opinion.

SUBSECTION 5606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES

Introduction

5606.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing an information technology (IT) systems service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5606.2 A1 IT systems services comprise a broad range of services including:

- Designing or developing hardware or software IT systems.
- Implementing IT systems, including installation, configuration, interfacing, or customizisation.
- Operating, maintaining, monitoring, updating or upgrading IT systems.
- Collecting or storing data or managing (directly or indirectly) the hosting of data.

5606.2 A2 The IT systems might:

- (a) Aggregate source data;
- (b) Form part of the internal control over sustainability reporting; or
- (c) Generate information that affects the sustainability information records or sustainability information reported, including related disclosures.

However, the IT systems might also involve matters that are unrelated to the sustainability assurance client's records underlying the sustainability information or the internal control over

sustainability reporting.

Risk of Assuming Management Responsibility When Providing an IT Systems Service

R5606.3 Paragraph R5400.20 precludes a firm or a network firm from assuming a management responsibility. When providing IT systems services to a sustainability assurance client, the firm or network firm shall be satisfied that:

- (a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (b) The client, through a competent individual (or individuals), preferably within senior management, makes all management decisions that are the proper responsibility of management with respect to the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the IT systems;
- (c) The client evaluates the adequacy and results of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the IT system; and
- (d) The client is responsible for operating the IT system and for the data it generates and uses.

5606.3 A1 Examples of IT systems services that result in the assumption of a management responsibility include where a firm or a network firm:

- Stores data or manages (directly or indirectly) the hosting of data on behalf of the sustainability assurance client. Such services include:
 - Acting as the only access to a financial or non-financial information system of the sustainability assurance client.
 - Taking custody of or storing the sustainability assurance client's data or records such that the sustainability assurance client's data or records are otherwise incomplete.
 - Providing electronic security or back-up services, such as business continuity or a disaster recovery function, for the sustainability assurance client's data or records.
- Operates, maintains, or monitors the sustainability assurance client's IT systems, network or website.

5606.3 A2 The collection, receipt, transmission and retention of data provided by a sustainability assurance client in the course of a sustainability assurance engagement or to enable the provision of a permissible service to that client does not result in an assumption of management responsibility.

Potential Threats Arising from the Provision of IT Systems Services

Sustainability Assurance Clients

5606.4 A1 Providing IT systems services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the assurance of the sustainability information on which the firm will express an opinion.

5606.4 A2 Factors that are relevant in identifying a self-review threat created by providing an IT systems service to a sustainability assurance client, and evaluating the level of such a threat include:

- The nature of the service.
- The nature of the client's IT systems and the extent to which the IT systems service impacts or interacts with the client's sustainability information on which the firm will express an opinion, the records underlying that information, or internal controls over sustainability reporting.

- The degree of reliance that will be placed on the particular IT systems as part of the sustainability assurance engagement.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5606.6 applies.

5606.4 A3 Examples of IT systems services that create a self-review threat when they form part of or affect a sustainability assurance client's sustainability information records or system of internal control over sustainability reporting include:

- Designing, developing, implementing, operating, maintaining, monitoring, updating or upgrading IT systems, including those related to cybersecurity.
- Supporting a sustainability assurance client's IT systems, including network and software applications.
- Implementing sustainability information management systems or sustainability information reporting software, whether or not it was developed by the firm or a network firm.

Sustainability Assurance Clients that are Not Public Interest Entities

5606.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an IT systems service to a sustainability assurance client that is not a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

Sustainability Assurance Clients that are Public Interest Entities

R5606.6 A firm or a network firm shall not provide IT systems services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat (Ref: Para. R5600.15 and R5600.17).

SUBSECTION 5607 – LITIGATION SUPPORT SERVICES

Introduction

5607.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a litigation support service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5607.2 A1 Litigation support services might include activities such as:

- Assisting with document management and retrieval.
- Acting as a witness, including an expert witness.
- Calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute.
- Forensic or investigative services.

Potential Threats Arising from the Provision of Litigation Support Services

All Sustainability Assurance Clients

5607.3 A1 Providing litigation support services to a sustainability assurance client might create a self-review

threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such services might also create an advocacy threat.

5607.4 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing litigation support services to a sustainability assurance client, and evaluating the level of such threats include:

- The legal and regulatory environment in which the service is provided.
- The nature and characteristics of the service.
- The extent to which the outcome of the litigation support service might involve estimating, or might affect the estimation of, damages or other amounts that might have a material effect on the sustainability information on which the firm will express an opinion.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5607.6 applies.

5607.4 A2 If a firm or a network firm provides a litigation support service to a sustainability assurance client and the service might involve estimating, or might affect the estimation of, damages or other amounts that affect the sustainability information on which the firm will express an opinion, the requirements and application material set out in Subsection 5603 related to valuation services apply.*eSustainability Assurance Clients that are Not Public Interest Entities*

5607.5 A1 An example of an action that might be a safeguard to address a self-review or advocacy threat created by providing a litigation support service to a sustainability assurance client that is not a public interest entity is using a professional who was not a sustainability assurance team member to perform the service.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5607.6 A firm or a network firm shall not provide litigation support services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

5607.6 A1 An example of a service that is prohibited because it might create a self-review threat is providing advice in connection with a legal proceeding where there is a risk that the outcome of the service affects the quantification of any provision or other amount in the sustainability information on which the firm will express an opinion.

Advocacy Threats

5607.6 A2 An example of an action that might be a safeguard to address an advocacy threat created by providing a litigation support service to a sustainability assurance client that is a public interest entity is using a professional who was not a sustainability assurance team member to perform the service.

Acting as a Witness

Sustainability Assurance Clients

5607.7 A1 A professional within the firm or the network firm might give evidence to a tribunal or court as a witness of fact or as an expert witness.

- (a) A witness of fact is an individual who gives evidence to a tribunal or court based on his or her direct knowledge of facts or events.
- (b) An expert witness is an individual who gives evidence, including opinions on matters, to a

tribunal or court based on that individual's expertise.

- 5607.7 A2 A threat to independence is not created when an individual, in relation to a matter that involves a sustainability assurance client, acts as a witness of fact and in the course of doing so provides an opinion within the individual's area of expertise in response to a question asked in the course of giving factual evidence.
- 5607.7 A3 The advocacy threat created when acting as an expert witness on behalf of a sustainability assurance client is at an acceptable level if a firm or a network firm is:
- (a) Appointed by a tribunal or court to act as an expert witness in a matter involving a client; or
 - (b) Engaged to advise or act as an expert witness in relation to a class action (or an equivalent group representative action) provided that:
 - (i) The firm's sustainability assurance clients constitute less than 20% of the members of the class or group (in number and in value);
 - (ii) No sustainability assurance client is designated to lead the class or group; and
 - (iii) No sustainability assurance client is authorized by the class or group to determine the nature and scope of the services to be provided by the firm or the terms on which such services are to be provided.

Sustainability Assurance Clients that are Not Public Interest Entities

- 5607.8 A1 An example of an action that might be a safeguard to address an advocacy threat for a sustainability assurance client that is not a public interest entity is using a professional to perform the service who is not, and has not been, a sustainability assurance team member.

Sustainability Assurance Clients that are Public Interest Entities

- R5607.9** A firm or a network firm, or an individual within a firm or a network firm, shall not act for a sustainability assurance client that is a public interest entity as an expert witness in a matter unless the circumstances set out in paragraph 5607.7 A3 apply.

SUBSECTION 5608 – LEGAL SERVICES

Introduction

- 5608.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a legal service to a sustainability assurance client.

Requirements and Application Material

Description of Service

- 5608.2 A1 Legal services are defined as any services for which the individual providing the services must either:
- (a) Have the required legal training to practice law; or
 - (b) Be admitted to practice law before the courts of the jurisdiction in which such services are to be provided.
- 5608.2 A2 This subsection deals specifically with:
- Providing legal advice.
 - Acting as general counsel.
 - Acting in an advocacy role.

Potential Threats Arising from Providing Legal Services

All Sustainability Assurance Clients

5608.3 A1 Providing legal services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such services might also create an advocacy threat.

A. Providing Legal Advice

Description of Service

5608.4 A1 Depending on the jurisdiction, providing legal advice might include a wide and diversified range of service areas including both corporate and commercial services to sustainability assurance clients, such as:

- Contract support.
- Supporting a sustainability assurance client in executing a transaction.
- Mergers and acquisitions.
- Supporting and assisting a sustainability assurance client's internal legal department.
- Legal due diligence and restructuring.

Potential Threats Arising from Providing Legal Advice

All Sustainability Assurance Clients

5608.5 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing legal advice to a sustainability assurance client, and evaluating the level of such threats include:

- The materiality of the specific matter in relation to the client's sustainability information reported.
- The complexity of the legal matter and the degree of ~~judgment~~judgement necessary to provide the service.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5608.7 applies.

5608.5 A2 Examples of legal advice that might create a self-review threat include:

- Estimating a potential loss arising from a lawsuit that will be disclosed in the sustainability information on which the firm will express an opinion.
- Interpreting provisions in contracts that might affect information disclosed in the sustainability information on which the firm will express an opinion.

5608.5 A3 Negotiating on behalf of a sustainability assurance client might create an advocacy threat or might result in the firm or network firm assuming a management responsibility.

Sustainability Assurance Clients that are Not Public Interest Entities

5608.6 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing legal advice to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address a self-review or advocacy threat.

- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or the service performed might address a self-review threat.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5608.7 A firm or a network firm shall not provide legal advice to a sustainability assurance client that is a public interest entity if the provision of such a service might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

Advocacy Threats

5608.8 A1 The considerations in paragraphs 5608.5 A1 and 5608.5 A3 to 5608.6 A1 are also relevant to evaluating and addressing advocacy threats that might be created by providing legal advice to a sustainability assurance client that is a public interest entity.

B. Acting as General Counsel

All Sustainability Assurance Clients

R5608.9 An engagement leader or employee of the firm or the network firm shall not serve as General Counsel of a sustainability assurance client.

5608.9 A1 The position of General Counsel is usually a senior management position with broad responsibility for the legal affairs of a company.

C. Acting in an Advocacy Role

Potential Threats Arising from Acting in an Advocacy Role Before a Tribunal or Court

Sustainability Assurance Clients that are Not Public Interest Entities

R5608.10 A firm or a network firm shall not act in an advocacy role for a sustainability assurance client that is not a public interest entity in resolving a dispute or litigation before a tribunal or court when the amounts or the information involved are material to the sustainability information on which the firm will express an opinion.

5608.10 A1 Examples of actions that might be safeguards to address a self-review or advocacy threat created when acting in an advocacy role for a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or the service performed.

Sustainability Assurance Clients that are Public Interest Entities

R5608.11 A firm or a network firm shall not act in an advocacy role for a sustainability assurance client that is a public interest entity in resolving a dispute or litigation before a tribunal or court.

SUBSECTION 5609 – RECRUITING SERVICES

Introduction

5609.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a recruiting service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5609.2 A1 Recruiting services might include activities such as:

- Developing a job description.
- Developing a process for identifying and selecting potential candidates.
- Searching for or seeking out candidates.
- Screening potential candidates for the role by:
 - Reviewing the professional qualifications or competence of applicants and determining their suitability for the position.
 - Undertaking reference checks of prospective candidates.
 - Interviewing and selecting suitable candidates and advising on candidates' competence.
- Determining employment terms and negotiating details, such as salary, hours and other compensation.

Risk of Assuming Management Responsibility When Providing a Recruiting Service

R5609.3 Paragraph R5400.20 precludes a firm or a network firm from assuming a management responsibility. When providing a recruiting service to a sustainability assurance client, the firm shall be satisfied that:

- (a) The client assigns the responsibility to make all management decisions with respect to hiring the candidate for the position to a competent employee, preferably within senior management; and
- (b) The client makes all management decisions with respect to the hiring process, including:
 - Determining the suitability of prospective candidates and selecting suitable candidates for the position.
 - Determining employment terms and negotiating details, such as salary, hours and other compensation.

Potential Threats Arising from Providing Recruiting Services

All Sustainability Assurance Clients

5609.4 A1 Providing recruiting services to a sustainability assurance client might create a self-interest, familiarity or intimidation threat.

5609.4 A2 Providing the following services does not usually create a threat as long as individuals within the firm or the network firm do not assume a management responsibility:

- Reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the position.
- Interviewing candidates and advising on a candidate's competence for sustainability reporting, administrative or control positions.

5609.4 A3 Factors that are relevant in identifying self-interest, familiarity or intimidation threats created by providing recruiting services to a sustainability assurance client, and evaluating the level of such threats include:

- The nature of the requested assistance.

- The role of the individual to be recruited.
- Any conflicts of interest or relationships that might exist between the candidates and the firm providing the advice or service.

5609.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is using professionals who are not sustainability assurance team members to perform the service.

Recruiting Services that are Prohibited

R5609.5 When providing recruiting services to a sustainability assurance client, the firm or the network firm shall not act as a negotiator on the client's behalf.

R5609.6 A firm or a network firm shall not provide a recruiting service to a sustainability assurance client if the service relates to:

- (a) Searching for or seeking out candidates;
- (b) Undertaking reference checks of prospective candidates;
- (c) Recommending the person to be appointed; or
- (d) Advising on the terms of employment, remuneration or related benefits of a particular candidate, with respect to the following positions:
 - (i) A director or officer of the entity; or
 - (ii) A member of senior management in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion or the records underlying that information.

SUBSECTION 5610 – CORPORATE FINANCE SERVICES

Introduction

5610.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a corporate finance service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5610.2 A1 Examples of corporate finance services include:

- Assisting a sustainability assurance client in developing corporate strategies.
- Identifying possible targets for the sustainability assurance client to acquire.
- Advising on the potential purchase or disposal price of an asset.
- Assisting in finance raising transactions.
- Providing structuring advice.
- Providing advice on the structuring of a corporate finance transaction or on financing arrangements.

Potential Threats Arising from the Provision of Corporate Finance Services

All Sustainability Assurance Clients

5610.3 A1 Providing corporate finance services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such services might also create an advocacy threat.

5610.4 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing corporate finance services to a sustainability assurance client, and evaluating the level of such threats include:

- The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the sustainability information on which the firm will express an opinion.
- The extent to which:
 - The outcome of the corporate finance advice will directly affect amounts recorded in the sustainability information on which the firm will express an opinion.
 - The outcome of the corporate finance service might have a material effect on the sustainability information on which the firm will express an opinion.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5610.8 applies.

Corporate Finance Services that are Prohibited

R5610.5 A firm or a network firm shall not provide corporate finance services that involve promoting, dealing in, or underwriting the shares, debt or other financial instruments issued by the sustainability assurance client or providing advice on investment in such shares, debt or other financial instruments.

R5610.6 A firm or a network firm shall not provide advice in relation to corporate finance services to a sustainability assurance client where:

- (a) The effectiveness of such advice depends on a particular method of measurement or presentation in the sustainability information on which the firm will express an opinion; and
- (b) The sustainability assurance team has doubt as to the appropriateness of the related method of measurement or presentation under the relevant financial or sustainability reporting framework.

Sustainability Assurance Clients that are Not Public Interest Entities

5610.7 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing corporate finance services to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed might address a self-review threat.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5610.8 A firm or a network firm shall not provide corporate finance services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

Advocacy Threats

5610.8 A1 An example of an action that might be a safeguard to address advocacy threats created by providing corporate finance services to a sustainability assurance client that is a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

EFFECTIVE DATE

- ~~Except for the provisions in Sections 5405 and 5406 applicable to assurance work performed at value chain components, the provisions in Chapters 1 to 3 will be effective for sustainability assurance engagements on sustainability information for periods beginning on or after December 15, 2026, or as at a specific date on or after December 15, 2026.~~
- ~~The revisions in Chapter 4 will be effective as of December 15, 2026.~~

~~The provisions in Sections 5405 and 5406 applicable when assurance work is performed at a value chain component will be effective for sustainability assurance engagements on sustainability information for periods beginning on or after July 1, 2028, or as at a specific date on or after July 1, 2028. For sustainability assurance engagements on sustainability information for periods beginning, or as at a specific date, prior to July 1, 2028 that involve assurance work performed at a value chain component:~~

- (a) ~~A group sustainability assurance firm or component practitioner that performs assurance work at a value chain component shall apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence in relation to such assurance work; If the group sustainability assurance firm intends to use the assurance work of another practitioner, the group sustainability assurance firm shall be satisfied that the other practitioner is independent, and in that regard may rely on a statement of independence in accordance with Part 4B or other professional requirements relating to independence; and~~
- (b) ~~The group sustainability assurance firm shall publicly disclose that independence provisions applicable to assurance work performed at value chain components under the IESSA have not been applied, pursuant to a deferred effective date for such provisions as specified in the IESSA.~~

~~Early adoption of the provisions in Chapters 1 to 4 is permitted and encouraged.~~

Transitional Provisions

~~If a firm has not served as the auditor of the financial statements, the requirement in paragraph R5540.10a also applies where the firm will perform a sustainability assurance engagement on sustainability information for a period beginning prior to December 15, 2026.~~

~~For non-assurance services engagements a firm or network firm has entered into with a sustainability assurance client before December 15, 2026, which would be prohibited under Section 5600 and its subsections but for which work has already commenced, the firm or network firm may continue such engagements in accordance with the original engagement terms for no more than one reporting cycle.~~

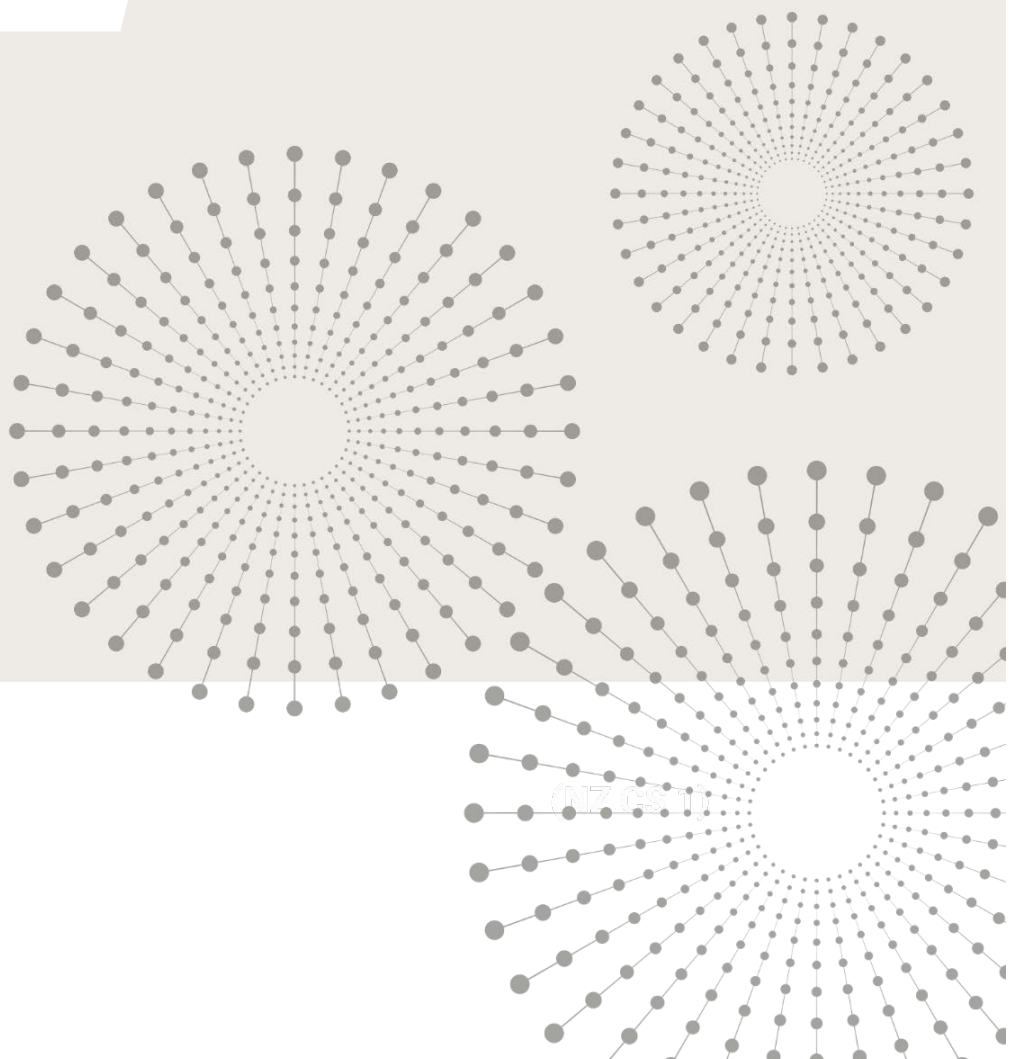
~~A firm might apply the provisions in Chapters 1 to 3 before their effective date. In such a case, if the firm intends to use the assurance work of another practitioner performed for a standalone or group sustainability assurance engagement and the other practitioner has complied with the independence provisions of Part 4B in relation to that work, the firm may treat a confirmation or statement of such compliance from the other practitioner as satisfying the requirements of Section 5406 of Part 5.s~~

Other Revisions to the Code Relating to Sustainability Assurance and Reporting

Exposure Draft

Submissions close (TBC)

June 2025



(NZ GST)

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CONSEQUENTIAL AND CONFORMING AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1 INTERNATIONAL CODE OF ETHICS FOR ASSURANCE PRACTITIONERS (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS) (NEW ZEALAND)

PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

SECTION 100

COMPLYING WITH THE CODE

(...)

Breaches of the Code

R100.8 Paragraphs R400.80 to R400.89, 405.22 A1 to R405.29, ~~and~~ R900.50 to R900.55, R5400.80 to R5400.89 and 5405.22 A1 to R5405.29 address a breach of International Independence Standards (New Zealand). An assurance practitioner who identifies a breach of any other provision of the Code shall evaluate the significance of the breach and its impact on the assurance practitioner's ability to comply with the fundamental principles. The assurance practitioner shall also:

- (a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and
- (b) Determine whether to report the breach to the relevant parties.

100.8 A1 Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional or regulatory body or an oversight authority.

(...)

SECTION 120

THE CONCEPTUAL FRAMEWORK

(...)

Requirements and Application Material

General

R120.3 The assurance practitioner shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.

120.3 A1 Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:

- (a) *Part 2 – Assurance Practitioners Performing Professional Activities Pursuant to Their Relationship with the Firm;*
- (b) *Part 3 – Application of the Code, Fundamental Principles and Conceptual Framework;* ~~and~~
- (c) *International Independence Standards (New Zealand)*, as follows:

- (i) Part 4A – *Independence for Audit and Review Engagements*; and
- (ii) Part 4B – *Independence for Assurance Engagements Other than Audit Engagements, and Review Engagements and Sustainability Assurance Engagements Addressed in Part 5; and-*

(d) Part 5 – *International Ethics Standards for Sustainability Assurance (including International Independence Standards) (New Zealand)*.

R120.4

When dealing with an ethics issue, the assurance practitioner shall consider the context in which the issue has arisen or might arise. Where an individual who is an assurance practitioner is performing professional activities pursuant to the assurance practitioner's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

(....)

PART 2 – ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM

SECTION 260

RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Introduction

- 260.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 260.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behaviour is created when an assurance practitioner becomes aware of non-compliance or suspected non-compliance with laws and regulations.
- 260.3 An assurance practitioner might encounter or be made aware of non-compliance or suspected non-compliance in the course of carrying out professional activities. This section guides the assurance practitioner in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the employing organisation's financial statements or sustainability information; and
 - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the employing organisation's financial statements or sustainability information, but compliance with which might be fundamental to the operating aspects of the employing organisation's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the Assurance Practitioner in Relation to Non-compliance with Laws and Regulations

- 260.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the assurance practitioner are:
- (a) To comply with the principles of integrity and professional behaviour;
 - (b) By alerting management or, where appropriate, those charged with governance of the employing organisation, to seek to:
 - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
 - (ii) Deter the non-compliance where it has not yet occurred; and
 - (c) To take such further action as appropriate in the public interest.

Requirements and Application Material

General

- 260.5 A1 Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:
- (a) The assurance practitioner's employing organisation;
 - (b) Those charged with governance of the employing organisation;
 - (c) Management of the employing organisation; or

(d) Other individuals working for or under the direction of the employing organisation.

260.5 A2 Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.
- Protection of human rights.
- Labor conditions and rights of employees.
- Consumer rights.

260.5 A3 Non-compliance might result in fines, litigation or other consequences for the employing organisation, potentially materially affecting its financial statements or sustainability information. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, non-compliance that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

R260.6 In some jurisdictions, there are legal or regulatory provisions governing how assurance practitioners are required to address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the assurance practitioner shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

- (a) Any requirement to report the matter to an appropriate authority; and
- (b) Any prohibition on alerting the relevant party.

(....)

Responsibilities of Senior Assurance practitioners

(....)

Addressing the Matter

(....)

260.14 A2 Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.

R260.15 In addition to responding to the matter in accordance with the provisions of this section, the senior assurance practitioner shall determine whether disclosure of the matter to the employing organisation's external auditor and/or sustainability assurance practitioner performing a sustainability assurance engagement that is within the scope of the International Independence

Standards (New Zealand) in Part 5, if any, is needed.

260.15 A1 Such disclosure would be pursuant to the senior assurance practitioner's duty or legal obligation to provide all information necessary to enable the auditor to perform the audit or the sustainability assurance practitioner to perform the sustainability assurance engagement that is within the scope of the International Independence Standards (New Zealand) in Part 5.

Determining Whether Further Action Is Needed

R260.16 The senior assurance practitioner shall assess the appropriateness of the response of the assurance practitioner's superiors, if any, and those charged with governance.

(...)

PART 3 – APPLICATION OF THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK

Introduction

300.1 This Part of the Code sets out requirements and application material for assurance practitioners when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by assurance practitioners, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires assurance practitioners to be alert for such facts and circumstances.

300.2 The requirements and application material that apply to assurance practitioners are set out in:

- Part 3 – *Application of the Code, Fundamental Principles and Conceptual Framework*, Sections 300 to 399, which applies to all assurance practitioners when providing assurance services.
- *International Independence Standards (New Zealand)* as follows:
 - Part 4A – *Independence for Audit and Review Engagements*, Sections 400 to 899, which applies to assurance practitioners when performing audit and review engagements.
 - Part 4B – *Independence for Assurance Engagements Other than Audit Engagements, and Review Engagements, and Sustainability Assurance Engagements Addressed in Part 5*, Sections 900 to 999, which applies to assurance practitioners when performing assurance engagements other than audit engagements, or review engagements, or sustainability assurance engagements that are within the scope of the *International Independence Standards (New Zealand)* in Part 5.
- Part 5 – *International Ethics Standards for Sustainability Assurance (including International Independence Standards) (New Zealand)*, Sections 5100 to 5600, which applies to assurance practitioners when performing sustainability assurance engagements.

300.3 In this Part, the term “assurance practitioner” refers to individual assurance practitioners and their firms.

(....)

The Client and its Operating Environment

300.7 A3 The assurance practitioner’s evaluation of the level of a threat might be impacted by whether the client is:

- (a) An audit client or a sustainability assurance client for whom the assurance practitioner performs a sustainability assurance engagement within the scope of the *International Independence Standards (New Zealand)* in Part 5, and whether ~~the audit that~~ client is a public interest entity;
- (b) An assurance client that is not an audit client or for whom the assurance practitioner does not perform a sustainability assurance engagement within the scope of the *International Independence Standards (New Zealand)* in Part 5; or
- (c) A client to whom non-assurance services are provided ~~client.~~

For example, providing a non-assurance service to an audit client that is a public interest entity might be perceived to result in a higher level of threat to compliance with the principle of objectivity with respect to the audit.

300.7 A4 The corporate governance structure, including the leadership of a client might promote compliance with the fundamental principles. Accordingly, an assurance practitioner's evaluation of the level of a threat might also be impacted by a client's operating environment. For example:

- The client requires appropriate individuals other than management to ratify or approve the appointment of a firm to perform an engagement.
- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that facilitate objective choices in tendering non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

(....)

SECTION 360

RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Introduction

- 360.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 360.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behaviour is created when an assurance practitioner becomes aware of non-compliance or suspected non-compliance with laws and regulations.
- 360.3 An assurance practitioner might encounter or be made aware of non-compliance or suspected non-compliance in the course of providing a professional service to a client. This section guides the assurance practitioner in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the client's financial statements or sustainability information; and
 - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements or sustainability information, but compliance with which might be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the Assurance Practitioner in Relation to Non-compliance with Laws and Regulations

- 360.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the assurance practitioner are:
- (a) To comply with the principles of integrity and professional behaviour;
 - (b) By alerting management or, where appropriate, those charged with governance of the client, to seek to:
 - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
 - (ii) Deter the commission of the non-compliance where it has not yet occurred; and
 - (c) To take such further action as appropriate in the public interest.

Requirements and Application Material

General

- 360.5 A1 Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:
- (a) A client;
 - (b) Those charged with governance of a client;
 - (c) Management of a client; or
 - (d) Other individuals working for or under the direction of a client.
- 360.5 A2 Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.
- Protection of human rights.
- Labour conditions and rights of employees.
- Consumer rights.

360.5 A3 Non-compliance might result in fines, litigation or other consequences for the client, potentially materially affecting its financial statements or sustainability information. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

R360.6 In some jurisdictions, there are legal or regulatory provisions governing how assurance practitioners should address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the assurance practitioner shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

- (a) Any requirement to report the matter to an appropriate authority; and
- (b) Any prohibition on alerting the client.

(....)

Audits of Financial Statements

(....)

360.18 A1 The purpose of the communication is to enable those responsible for audit work at the components, legal entities or business units to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group engagement partner's firm or network is the same as or different from the firms or networks of those performing audit work at the components, legal entities or business units.

Communicating the Matter to the Client's Sustainability Assurance Practitioner

R360.18a Unless prohibited from doing so by law or regulation, the assurance practitioner shall communicate the non-compliance or suspected non-compliance to the client's sustainability assurance practitioner(s) performing a sustainability assurance engagement that is within the scope of the International Independence Standards (New Zealand) in Part 5, when the client is also:

(a) A sustainability assurance client of the firm; or

(b) A group component of a sustainability assurance client of the firm.

The communication shall be made in accordance with the firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the engagement leader responsible for the sustainability assurance engagement.

R360.18b The assurance practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the client's sustainability assurance practitioner(s) performing a sustainability assurance engagement that is within the scope of the International Independence Standards (New Zealand) in Part 5, when the client is:

(a) Also a sustainability assurance client, or a group component of a sustainability assurance client, of a network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the engagement leader responsible for the sustainability assurance engagement; or

(b) Not a sustainability assurance client, or a group component of a sustainability assurance client, of the firm or a network firm.

Relevant Factors to Consider

360.18b A1 Factors relevant to considering the communication in accordance with paragraph R360.18b include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether management or those charged with governance have already informed the client's sustainability assurance practitioner(s) about the matter.

Purpose of Communication

360.18b A2 In the circumstances addressed in paragraphs R360.18a and R360.18b, the purpose of the communication is to enable:

(a) The engagement leader to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of Part 5; and

(b) The engagement partner and the sustainability assurance practitioner to discuss and coordinate to the extent necessary relevant actions pursuant to the provisions in this section and Section 5360, respectively.

Determining Whether Further Action Is Needed

R360.19 The assurance practitioner shall assess the appropriateness of the response of management and, where applicable, those charged with governance.

(....)

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

(....)

Assurance Engagements other than Audit and Review Engagements

400.17 Independence standards for assurance engagements that are not audit or review engagements are set out in:

- [Part 4B – Independence for Assurance Engagements Other than Audit Engagements, – and Review Engagements, and Sustainability Assurance Engagements Addressed in Part 5.](#)
- [Part 5 – International Ethics Standards for Sustainability Assurance \(including International Independence Standards\) \(New Zealand\)](#)

(...)

Network Firms

(....)

R400.54 If a firm or a network sells a [component part](#) of its practice, and [the component that part](#) continues to use ~~all or part of~~ [wholly or partly](#) the firm's or network's name for a limited time, the relevant entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

400.54 A1 The agreement for the sale of a [part component](#) of a practice might provide that, for a limited period of time, [that part the sold component](#) can continue to use [wholly all](#) or [partly of](#) the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances, while the two entities might be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation. The two entities are therefore not network firms.

(...)

SECTION 410

FEES

(....)

Total Fees – Proportion of Fees for Services Other than Audit to Audit Fee

410.11 A1 The level of the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client, due to concerns about the potential loss of either the audit engagement or other services. Such circumstances might also create an intimidation threat. A further consideration is a perception that the firm or network firm focuses on the non-audit relationship, which might create a threat to the auditor's independence.

410.11 A2 Factors that are relevant in evaluating the level of such threats include:

- The ratio of fees for services other than audit to the audit fee.
- The length of time during which a large proportion of fees for services other than audit to the audit fee has existed.
- The nature, scope and purposes of the services other than audit, including:
 - Whether they are recurring services.
 - Whether law or regulation mandates the services to be performed by the firm.

410.11 A2a [Where a firm or a network firm provides a sustainability assurance engagement addressed in the International Independence Standards \(New Zealand\) in Part 5, the fee for that sustainability assurance engagement does not impact the level of the self-interest threat or intimidation threat created by the proportion of fees for services other than audit to the audit fee.](#)

410.11 A3 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the audit or the service other than audit review the relevant audit work.
- Reducing the extent of services other than audit provided to the audit client.

(...)

SECTION 540

LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT

Introduction

540.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

540.2 When an individual is involved in an audit engagement, [or a combination of audit and sustainability assurance engagements for the same client](#), over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

540.3 A1 [References in this Section to key sustainability assurance leader, sustainability assurance team and sustainability assurance engagement are in the context of sustainability assurance engagements within the scope of the International Independence Standards \(New Zealand\) in Part 5.](#)

All Audit Clients

540.43 A1 Although an understanding of an audit client and its environment is fundamental to audit quality, a familiarity threat might be created as a result of an individual's long association as an audit team member [or sustainability assurance team member](#) with:

- (a) The audit client and its operations;
- (b) The audit client's senior management; or

- (c) The financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements.

540.3-4 A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgement inappropriately.

540.43 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:

- (a) In relation to the individual:

- The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.
- How long the individual has been an engagement team member [for the audit engagement or sustainability assurance engagement](#), and the nature of the roles performed.
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the audit, for example, by making key decisions or directing the work of other engagement team members.
- The closeness of the individual's personal relationship with senior management or those charged with governance.
- The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.

- (b) In relation to the audit client:

- The nature or complexity of the client's accounting and financial reporting issues and whether they have changed.
- Whether there have been any recent changes in senior management or those charged with governance.
- Whether there have been any structural changes in the client's organisation which impact the nature, frequency and extent of interactions the individual might have with senior management or those charged with governance.

540.43 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management.

540.43 A5 An example of an action that might eliminate the familiarity and self-interest threats created by an individual being involved in an audit engagement, [or a combination of audit and sustainability assurance engagements for the same client](#), over a long period of time would be rotating the individual off the audit team.

540.43 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the audit team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an audit team member review the work of the individual.

- Performing regular independent internal or external quality reviews of the engagement.

R540.54 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit team, the firm shall determine an appropriate period during which the individual shall not:

- Be a member of the engagement team for the audit engagement;
- Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; or
- Exert direct influence on the outcome of the audit engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.75 to R540.234 also apply.

R540.6 Where an individual is a member of both the audit team and the sustainability assurance team for the same client and the firm decides that the level of the threats created can only be addressed by rotating the individual off both the audit team and the sustainability assurance team, the firm shall, in addition to complying with paragraph R540.5, determine an appropriate period during which the individual shall not:

- Be a member of the engagement team for the sustainability assurance engagement;
- Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the sustainability assurance engagement; or
- Exert direct influence on the outcome of the sustainability assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.7 to R540.23 also apply.

Audit Clients that are Public Interest Entities

R540.75 Subject to paragraphs R540.97 to R540.119, in respect of an audit of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time-on” period):

- The engagement partner;
- The individual appointed as responsible for performing the engagement quality review; ~~or~~
- Any other key audit partner role; ~~or~~
- A key sustainability assurance leader.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R540.134 to R540.2149.

R540.86 In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R540.75(a) to (de) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R540.134 to R540.153 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

540.86 A1 For example,

- An individual who served as engagement partner for four years followed by three years off can only act thereafter as a key audit partner on the same audit engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph R540.175.

- [An individual who served as engagement partner for two years for the audit of the sustainability assurance client's financial statements might be appointed as the individual responsible for performing the engagement quality review for the sustainability assurance engagement for five further years. Thereafter, that individual is required to cool off in accordance with paragraph R540.18.](#)

R540.97 As an exception to paragraph R540.75, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm's control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key audit partner as long as the threat to independence can be eliminated or reduced to an acceptable level.

540.97 A1 For example, a key audit partner may remain in that role on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner. In such circumstances, this will involve the firm discussing with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

R540.108 If an audit client becomes a public interest entity, a firm shall take into account the length of time an individual has served the audit client as a key audit partner [or a key sustainability assurance leader](#) before the client becomes a public interest entity in determining the timing of the rotation. If the individual has served the audit client as a key audit partner [or a key sustainability assurance leader](#) for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in ~~that the~~ capacity [of a key audit partner](#) before rotating off the [audit](#) engagement is seven years less the number of years already served. As an exception to paragraph R540.75, if the individual has served the audit client as a key audit partner [or a key sustainability assurance leader](#) for a period of six or more cumulative years when the client becomes a public interest entity, the individual may continue to serve in ~~that the~~ capacity [of a key audit partner](#) with the concurrence of those charged with governance for a maximum of two additional years before rotating off the [audit](#) engagement.

R540.119 When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners might not be possible. As an exception to paragraph R540.75, if an independent regulatory body in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such exemption. This is provided that the independent regulatory body has specified other requirements which are to be applied, such as the length of time that the key audit partner may be exempted from rotation or a regular independent external review.

Other Considerations Relating to the Time-on Period

R540.120 In evaluating the threats created by an individual's long association with an audit engagement, a firm shall give particular consideration to the roles undertaken and the length of an individual's association with the audit engagement [or the sustainability assurance engagement for the same client](#) prior to the individual becoming a key audit partner.

540.120 A1 There might be situations where the firm, in applying the conceptual framework, concludes that it is not appropriate for an individual who is a key audit partner to continue in that role even though the length of time served as a key audit partner is less than seven years.

Cooling-off Period

R540.134 If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.

- R540.142** Where the individual has been appointed as responsible for the engagement quality review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.
- R540.153** If the individual has acted as a key audit partner other than in the capacities set out in paragraphs R540.134 and R540.142 for seven cumulative years, the cooling-off period shall be two consecutive years.
- 540.164 A1 The partner rotation requirements in this section are distinct from, and do not modify, the cooling-off period required by Professional and Ethical Standard 4 as a condition for eligibility before the engagement partner can assume the role of engagement quality reviewer (see paragraph 325.8 A4).

Service in a combination of key audit partner [or key sustainability assurance leader](#) roles

- R540.175** If the individual acted in a combination of key audit partner [or key sustainability assurance leader](#) roles and served as the engagement partner [or engagement leader](#) for four or more cumulative years, the cooling-off period shall be five consecutive years.
- R540.186** Subject to paragraph R540.197(a), if the individual acted in a combination of key audit partner [or key sustainability assurance leader](#) roles and served as the key audit partner [or key sustainability assurance leader](#) responsible for the engagement quality review for four or more cumulative years, the cooling-off period shall be three consecutive years.
- R540.197** If an individual has acted in a combination of engagement partner, [engagement leader](#) and engagement quality reviewer roles for four or more cumulative years during the time-on period, the cooling-off period shall:
- (a) As an exception to paragraph R540.186, be five consecutive years where the individual has been the engagement partner [or engagement leader](#) for three or more years; or
 - (b) Be three consecutive years in the case of any other combination.
- R540.2018** If the individual acted in any combination of key audit partner [or key sustainability assurance leader](#) roles other than those addressed in paragraphs R540.175 to R540.197, the cooling-off period shall be two consecutive years.

Service at a Prior Firm

- R540.2119** In determining the number of years that an individual has been a key audit partner [or a key sustainability assurance leader](#) as set out in paragraph R540.75, the length of the relationship shall, where relevant, include time while the individual was a key audit partner on ~~that the audit engagement~~ [or a key sustainability assurance leader on the sustainability assurance engagement for the same client](#) at a prior firm.

[Paragraph R540.220 Intentionally left blank]

Restrictions on Activities During the Cooling-off Period

- R540.234** For the duration of the relevant cooling-off period, the individual shall not:
- (a) Be an engagement team member or perform an engagement quality review, or a review consistent with the objective of an engagement quality review for the audit engagement [or the sustainability assurance engagement](#);
 - (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement [or sustainability assurance engagement](#) (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit [engagement or sustainability assurance engagement](#));

- (c) Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the audit client, or overseeing the relationship of the firm or a network firm with the audit client; or
- (d) Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services, that would result in the individual:
 - (i) Having significant or frequent interaction with senior management or those charged with governance; or
 - (ii) Exerting direct influence on the outcome of the audit engagement [or sustainability assurance engagement](#).

540.234 A1 The provisions of paragraph R540.234 are not intended to prevent the individual from assuming a leadership role in the firm or a network firm, such as that of the Senior or Managing Partner (Chief Executive or equivalent).

PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT ENGAGEMENTS, AND REVIEW ENGAGEMENTS, AND SUSTAINABILITY ASSURANCE ENGAGEMENTS ADDRESSED IN PART 5

SECTION 900

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT ENGAGEMENTS, AND REVIEW ENGAGEMENTS, AND SUSTAINABILITY ASSURANCE ENGAGEMENTS WITHIN THE SCOPE OF THE INTERNATIONAL INDEPENDENCE STANDARDS (NEW ZEALAND) IN PART 5

Introduction

General

900.1 This Part applies to assurance engagements other than audit engagements, ~~and~~ review engagements, and sustainability assurance engagements within the scope of the International Independence Standards (New Zealand) in Part 5. Examples of such engagements include:

- Assurance on an entity's key performance indicators.
- Assurance on an entity's compliance with law or regulation.
- Assurance on performance criteria, such as value for money, achieved by a public sector body.
- Assurance on the effectiveness of an entity's system of internal control.
- Assurance on an entity's non-financial information, ~~for example, environmental, social and governance disclosures, including greenhouse gas statements other than assurance on sustainability information within the scope of the International Independence Standards (New Zealand) in Part 5~~.
- ~~An audit of specific elements, accounts or items of a financial statement.~~
- A sustainability assurance engagement that is not within the scope of the International Independence Standards (New Zealand) in Part 5, for example:
 - A sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion is reported in accordance with a framework designed to meet the information needs of specified users.
 - A sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion is reported in accordance with entity-developed criteria.
 - A sustainability assurance engagement for which the sustainability assurance report is a restricted use and distribution report.

(...)

Audit and Review Engagements

900.10 Independence standards for audit and review engagements are set out in Part 4A – Independence for Audit and Review Engagements. If a firm performs both an assurance engagement and an audit or review engagement for the same client, the requirements in Part 4A continue to apply to

the firm, a network firm and the audit or review team members.

NZ 900.10.1 Part 4A also addresses the independence requirements for assurance engagements where assurance is provided in relation to an offer document of a FMC reporting entity considered to have a higher level of public accountability in respect of historical financial information, prospective or pro-forma financial information, or a combination of these.

Sustainability Assurance Engagements Addressed in Part 5

900.11 Part 5 sets out independence standards for certain sustainability assurance engagements. If a firm performs both a sustainability assurance engagement within the scope of the International Independence Standards (New Zealand) in Part 5 and another assurance engagement within the scope of this Part for the same client, the requirements in Part 5 continue to apply to the firm, a network firm and the sustainability assurance team members.

SUSTAINABILITY REPORTING-RELATED REVISIONS TO PARTS 1 TO 3 OF PROFESSIONAL AND ETHICAL STANDARD 1 INTERNATIONAL CODE OF ETHICS FOR ASSURANCE PRACTITIONERS (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS) (NEW ZEALAND)

PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

SECTION 100

COMPLYING WITH THE CODE

Introduction

- 100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest.
- 100.2 Confidence in the accountancy profession is a reason why businesses, governments and other organisations involve professional accountants in a broad range of areas, including financial, non-financial and corporate reporting, assurance and other professional activities. Accountants understand and acknowledge that such confidence is based on the skills and values that accountants bring to the professional activities they undertake, including:
- (a) Adherence to ethical principles and professional standards;
 - (b) Use of business acumen;
 - (c) Application of expertise on technical and other matters; and
 - (d) Exercise of professional judgement.
- The application of these skills and values enables accountants to provide advice or other output that meets the purpose for which it was provided, and which can be relied upon by the intended users of such output.
- 100.3 The Code sets out high quality standards of ethical behaviour expected of professional accountants for adoption by professional accountancy organisations which are members of the International Federation of Accountants (IFAC), or for use by such members as a basis for their codes of ethics. The Code may also be used or adopted by those responsible for setting ethics (including independence) standards for professional accountants in particular sectors or jurisdictions and by firms in developing their ethics and independence policies.
- 100.4 The Code establishes five fundamental principles to be complied with by all professional accountants. It also includes a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and, for audits and other assurance engagements, threats to independence. The Code also applies the fundamental principles and the conceptual framework to a range of facts and circumstances that accountants might encounter, whether in business or in public practice. (....)

PART 2 – ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM

SECTION 200

APPLYING THE CONCEPTUAL FRAMEWORK – ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM

Introduction

- 200.1 This Part of the Code sets out requirements and application material for assurance practitioners, performing professional activities pursuant to their relationship with the firm, when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by assurance practitioners, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires assurance practitioners to be alert for such facts and circumstances.
- 200.2 Investors, creditors, employing organisations and other sectors of the business community, as well as governments and the general public, might rely on the work of assurance practitioners. Assurance practitioners might be solely or jointly responsible for the preparation and reporting of financial and non-financial other information, including sustainability, information, on which both their employing organisations and third parties might rely. They might also be responsible for providing effective financial management and competent advice on a variety of business-related matters.
- 200.3 An assurance practitioner might be an employee, contractor, partner, director (executive or non-executive), owner-manager, or volunteer of an employing organisation. The legal form of the relationship of the assurance practitioner with the employing organisation has no bearing on the ethical responsibilities placed on the assurance practitioner.

(....)

Identifying Threats

- 200.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories that might create threats for an assurance practitioner when undertaking a professional activity:
- (a) Self-interest Threats
- An assurance practitioner holding a financial interest in, or receiving a loan or guarantee from, the employing organisation.
 - An assurance practitioner participating in incentive compensation arrangements offered by the employing organisation.
 - An assurance practitioner having access to corporate assets for personal use.
 - An assurance practitioner being offered a gift or special treatment from a supplier of the employing organisation.
- (b) Self-review Threats
- An assurance practitioner determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision.

- An assurance practitioner determining the appropriate methodology to calculate emission reductions after performing the feasibility study supporting a capital project to reduce emissions.
- (c) Advocacy Threats
- An assurance practitioner having the opportunity to manipulate information in a prospectus, including in relation to a sustainability or sustainability-linked bond, in order to obtain favourable financing.
- (d) Familiarity Threats
- An assurance practitioner being responsible for the financial or non-financial, including sustainability, reporting of the employing organisation when an immediate or close family member employed by the organisation makes decisions that affect the financial or non-financial reporting of the organisation.
 - An assurance practitioner having a long association with individuals influencing business decisions.
- (e) Intimidation Threats
- An assurance practitioner or immediate or close family member facing the threat of dismissal or replacement over a disagreement about:
 - The application of an accounting principle or a sustainability reporting principle.
 - The determination of measurement methods, metrics, targets, estimation criteria or assumptions for sustainability information.
 - The way in which financial or non-financial information is to be reported.
 - An individual attempting to influence the decision-making process of the assurance practitioner, for example with regard to the awarding of contracts or the application of an accounting principle or a sustainability reporting principle.

Identifying Threats Associated with the Use of Technology

200.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for an assurance practitioner when undertaking a professional activity:

- Self-interest Threats
 - The data available might not be sufficient for the effective use of the technology.
 - The technology might not be appropriate for the purpose for which it is to be used.
 - The assurance practitioner might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.

(Ref: Para. 230.2).
- Self-review Threats
 - The technology was designed or developed using the knowledge, expertise or judgement of the assurance practitioner or employing organisation.

Evaluating Threats

200.7 A1 The conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level.

- 200.7 A2 The assurance practitioner's evaluation of the level of a threat is also impacted by the nature and scope of the professional activity.
- 200.7 A3 The assurance practitioner's evaluation of the level of a threat might be impacted by the work environment within the employing organisation and its operating environment. For example:
- Leadership that stresses the importance of ethical behaviour and the expectation that employees will act in an ethical manner.
 - Policies and procedures to empower and encourage employees to communicate ethics issues that concern them to senior levels of management without fear of retribution.
 - Policies and procedures to implement and monitor the quality of employee performance.
 - Systems of corporate oversight or other oversight structures and strong internal controls over financial and non-financial, including sustainability, information and their interconnection.
 - Recruitment procedures emphasising the importance of employing high calibre competent personnel.
 - Timely communication of policies and procedures, including any changes to them, to all employees, and appropriate training and education on such policies and procedures.
 - Ethics and code of conduct policies.
- 200.7 A4 The assurance practitioner's evaluation of the level of a threat associated with the use of technology might also be impacted by the work environment within the employing organisation and its operating environment. For example:
- Level of corporate oversight and internal controls over the technology.
 - Assessments of the quality and functionality of technology that are undertaken by a third-party.
 - Training that is provided regularly to all relevant employees so they obtain and maintain the professional competence to sufficiently understand, use and explain the technology and its appropriateness for the purpose intended.

(....)

Communicating with Those Charged with Governance

- R200.9** When communicating with those charged with governance in accordance with the Code, an assurance practitioner shall determine the appropriate individual(s) within the employing organisation's governance structure with whom to communicate. If the assurance practitioner communicates with a subgroup of those charged with governance, the assurance practitioner shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

- 200.9 A1 In determining with whom to communicate, an assurance practitioner might consider:
- (a) The nature and importance of the circumstances; and
 - (b) The matter to be communicated.
- 200.9 A2 Examples of a subgroup of those charged with governance include an audit committee, another committee tasked with oversight of sustainability information, or an individual member of those charged with governance.
- R200.10** If an assurance practitioner communicates with individuals who have management responsibilities as well as governance responsibilities, the assurance practitioner shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the assurance practitioner would otherwise communicate.
- 200.10 A1 In some circumstances, all of those charged with governance are involved in managing the employing organisation, for example, a small business where a single owner manages the organisation and no one else has a governance role. In these cases, if matters are communicated with individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the assurance practitioner has satisfied the requirement to communicate with those charged with governance.

SECTION 210

CONFLICTS OF INTEREST

(....)

Requirements and Application Material

General

R210.4 An assurance practitioner shall not allow a conflict of interest to compromise professional or business judgement.

210.4 A1 Examples of circumstances that might create a conflict of interest include:

- Serving in a management or governance position for two employing organisations and acquiring confidential information from one organisation that might be used by the assurance practitioner to the advantage or disadvantage of the other organisation.
- Undertaking a professional activity for each of two parties in a partnership, where both parties are employing the assurance practitioner to assist them to dissolve their partnership.
- Preparing financial or non-financial information for certain members of management of the assurance practitioner's employing organisation who are seeking to undertake a management buy-out.
- Being responsible for selecting a vendor for the employing organisation when an immediate family member of the assurance practitioner might benefit financially from the transaction.
- Serving in a governance capacity in an employing organisation that is approving certain investments for the company where one of those investments will increase the value of the investment portfolio of the assurance practitioner or an immediate family member.

Conflict Identification

R210.5 An assurance practitioner shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying:

- (a) The nature of the relevant interests and relationships between the parties involved; and
- (b) The activity and its implication for relevant parties.

(....)

SECTION 220

PREPARATION AND PRESENTATION OF INFORMATION

Introduction

- 220.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 220.2 Preparing or presenting information might create a self-interest, intimidation or other threats to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

220.3 A1 Assurance practitioners at all levels in an employing organisation are involved in the preparation or presentation of information both within and outside the organisation.

220.3 A2 Stakeholders to whom, or for whom, such information is prepared or presented, include:

- Management and those charged with governance.
- Investors and lenders or other creditors.
- Regulatory bodies.

This information might assist stakeholders in understanding and evaluating aspects of the employing organisation's [activities and](#) state of affairs and in making decisions concerning the organisation. Information can include financial and non-financial information that might be made public or used for internal purposes.

Examples include:

- Operating and performance reports.
- Decision support analyses.
- Budgets and forecasts.
- [Information provided to the internal and external auditors.](#)
- [Sustainability information, including information on the organisation's business model, services, products, or other relevant activities, provided to the sustainability assurance practitioner.](#)
- Risk [and impact](#) analyses.
- General and special purpose financial statements.
- Tax returns.
- Reports filed with regulatory bodies for legal and compliance purposes.

220.3 A3 For the purposes of this section, preparing or presenting information includes [collecting,](#) recording, [measuring,](#) maintaining and approving information.

- R220.4** When preparing or presenting information, an assurance practitioner shall:
- (a) Prepare or present the information in accordance with a relevant reporting framework, where applicable;
 - (b) Prepare or present the information in a manner that is intended neither to mislead others nor to influence contractual or regulatory outcomes inappropriately;
 - (c) Exercise professional judgement to:
 - (i) Represent the facts accurately and completely in all material respects;
 - (ii) Describe clearly the true nature and impacts of business transactions or activities; and
 - (iii) Collect, Classify, and record or measure information in a timely and proper manner;
 - (d) Not omit anything with the intention of rendering the information misleading or of influencing contractual or regulatory outcomes inappropriately;
 - (e) Avoid undue influence of, or undue reliance on, individuals, organisations or technology; and
 - (f) Be aware of the risk of bias.

220.4 A1 An example of preparing or presenting the information in a manner that is intended to mislead others is deliberately giving a false impression in sustainability information about how well an organisation or an investment is aligned with or achieving its sustainability goals, through practices such as:

- Omitting relevant information to misrepresent the nature and impacts of business activities.
- Including false information.
- Inappropriately applying or reporting metrics.
- Placing excessive emphasis on certain information while understating other information.

220.4 A2⁴ An example of influencing a contractual or regulatory outcome inappropriately is using an unrealistic estimate with the intention of avoiding violation of a contractual requirement such as a debt covenant or of a regulatory requirement such as a capital requirement for a financial institution.

220.4 A3 An example of failing to exercise professional judgement to represent the facts accurately and completely in all material respects is placing undue weight on information that corroborates an organisation's achievement of its targets or insufficient weight on other information which contradicts such achievement.

220.4 A4 An example of placing undue reliance on an organisation is using the data provided by a large supplier within the entity's value chain to prepare or present the entity's sustainability information, without considering the source, relevance and sufficiency of that supplier's data.

Use of Discretion in Preparing or Presenting Information

R220.5 Preparing or presenting information might require the exercise of discretion in making professional judgements. The assurance practitioner shall not exercise such discretion with the intention of misleading others or influencing contractual or regulatory outcomes inappropriately.

220.5 A1 Examples of ways in which discretion might be misused to achieve inappropriate outcomes include:

- Determining estimates, for example, determining fair value estimates in order to misrepresent profit or loss.

- Selecting or changing an accounting policy or method among two or more alternatives permitted under the applicable financial reporting framework, for example, selecting a policy for accounting for long-term contracts in order to misrepresent profit or loss.
- Selecting or changing measurement methods among two or more alternatives permitted under the applicable sustainability reporting framework in order to misrepresent information.
- Selecting, omitting or obscuring opportunities, risks or impacts as part of a materiality assessment in order to misrepresent sustainability information.
- Determining the timing of transactions, for example, timing the sale of an asset near the end of the fiscal year in order to mislead.
- Determining the timing of disclosures of sustainability information to achieve a more favourable presentation or outcome in order to mislead.
- Determining the structuring of transactions, for example, structuring financing transactions in order to misrepresent assets and liabilities or classification of cash flows.
- Selecting disclosures, for example, omitting or obscuring information relating to financial, sustainability or operating risk in order to mislead.
- Preparing forward-looking information by relying on assumptions that are unrealistic or inconsistent with management's decisions or objectives in order to mislead.

R220.6 When performing professional activities, especially those that do not require compliance with a relevant reporting framework, the assurance practitioner shall exercise professional judgement to identify and consider:

- (a) The purpose for which the information is to be used;
- (b) The context within which it is given; and
- (c) The audience to whom it is addressed.

220.6 A1 For example, when preparing or presenting pro forma reports, budgets or forecasts, or sustainability information, the inclusion of relevant estimates, approximations and assumptions, where appropriate, would enable those who might rely on such information to form their own judgements.

220.6 A2 The assurance practitioner might also consider clarifying the intended audience, context and purpose of the information to be presented.

Using the Work of Others

[Placeholder – The new and revised provisions under the heading “Using the Work of Others” are included in the Final Pronouncement addressing Using the Work of an External Expert]

(....)

Using the Output of Technology

R220.8 An assurance practitioner who intends to use the output of technology, whether that technology was developed internally or provided by third parties, shall exercise professional judgement to determine the appropriate steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

220.8 A1 Factors to consider when an assurance practitioner intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output of the technology.

- Whether the assurance practitioner has the ability, or has access to an expert with the ability, to understand, use and explain the technology and its appropriateness for the purpose intended.
- Whether the technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The employing organisation's oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorising user access to the technology and overseeing such use.
- The appropriateness of the inputs to the technology, including data and any related decisions, and decisions made by individuals in the course of using the technology.

Addressing Information that Is or Might be Misleading

R220.9 When the assurance practitioner knows or has reason to believe that the information with which the assurance practitioner is associated is misleading, the assurance practitioner shall take appropriate actions to seek to resolve the matter.

220.9 A1 Actions that might be appropriate include:

- Discussing concerns that the information is misleading with the assurance practitioner's superior and/or the appropriate level(s) of management within the assurance practitioner's employing organisation or those charged with governance, and requesting such individuals to take appropriate action to resolve the matter. Such action might include:
 - Having the information corrected.
 - If the information has already been disclosed to the intended users, informing them of the correct information.
- Consulting the policies and procedures of the employing organisation (for example, an ethics or whistle-blowing policy) regarding how to address such matters internally.

220.9 A2 The assurance practitioner might determine that the employing organisation has not taken appropriate action. If the assurance practitioner continues to have reason to believe that the information is misleading, the following further actions might be appropriate provided that the assurance practitioner remains alert to the principle of confidentiality:

- Consulting with:
 - A relevant professional body.
 - The internal or external auditor or sustainability assurance practitioner of the employing organisation.
 - Legal counsel.
- Determining whether any requirements exist to communicate to:
 - Third parties, including users of the information.
 - Regulatory and oversight authorities.

R220.10 If after exhausting all feasible options, the assurance practitioner determines that appropriate action has not been taken and there is reason to believe that the information is still misleading, the assurance practitioner shall refuse to be or to remain associated with the information.

220.10 A1 In such circumstances, it might be appropriate for an assurance practitioner to resign from the employing organisation.

Documentation

- 220.11 A1 The assurance practitioner is encouraged to document:
- The facts.
 - The accounting or reporting principles or other relevant professional standards involved.
 - The communications and parties with whom matters were discussed.
 - The assurance practitioner's analysis, assumptions, courses of action considered, and judgements and decisions made in preparing or presenting the information.
 - How the assurance practitioner attempted to address the matter(s).

Other Considerations

- 220.12 A1 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from a financial interest, including compensation and incentives linked to financial or non-financial, including sustainability, reporting and decision making, the requirements and application material set out in Section 240 apply.
- 220.12 A2 Where the misleading information might involve non-compliance with laws and regulations, the requirements and application material set out in Section 260 apply.
- 220.12 A3 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from pressure, the requirements and application material set out in Section 270 apply.
- 220.12 A4 When an assurance practitioner is considering using the work of others or the output of technology, a consideration is whether the assurance practitioner is in a position within the employing organisation to obtain information in relation to the factors necessary to determine whether such use is appropriate.

SECTION 240

FINANCIAL INTERESTS, COMPENSATION AND INCENTIVES LINKED TO FINANCIAL OR NON-FINANCIAL REPORTING AND DECISION MAKING

(....)

Requirements and Application Material

General

R240.3 An assurance practitioner shall not manipulate information or use confidential information for personal gain or for the financial gain of others.

240.3 A1 Assurance practitioners might have financial interests or might know of financial interests of immediate or close family members that, in certain circumstances, might create threats to compliance with the fundamental principles. Financial interests include those arising from compensation or incentive arrangements linked to financial or non-financial, including sustainability, reporting and decision making.

240.3 A2 Examples of circumstances that might create a self-interest threat include situations in which the assurance practitioner or an immediate or close family member:

- Has a motive and opportunity to manipulate price-sensitive information in order to gain financially.
- Holds a direct or indirect financial interest in the employing organisation and the value of that financial interest might be directly affected by decisions made by the assurance practitioner.
- Is eligible for a ~~profit-related~~ bonus or incentive based on financial or non-financial performance goals and the value of that bonus or incentive might be directly affected by decisions made by the assurance practitioner.
- Holds, directly or indirectly, deferred bonus share rights or share options in the employing organisation, the value of which might be affected by decisions made by the assurance practitioner.
- Participates in compensation arrangements which provide incentives to achieve targets or to support efforts to maximise the value of the employing organisation's shares. An example of such an arrangement might be through participation in incentive plans which are linked to certain financial or non-financial performance conditions being met.

240.3 A3 Factors that are relevant in evaluating the level of such a threat include:

- The significance of the financial interest. What constitutes a significant financial interest will depend on personal circumstances and the materiality of the financial interest to the individual.
- Policies and procedures for a committee independent of management to determine the level or form of senior management remuneration.
- In accordance with any internal policies, disclosure to those charged with governance of:
 - All relevant interests.
 - Any plans to exercise entitlements or trade in relevant shares.
- Internal and external audit procedures that are specific to address issues that give rise to the financial interest.

240.3 A4 Threats created by compensation or incentive arrangements might be compounded by explicit or implicit pressure from superiors or colleagues. See Section 270, *Pressure to Breach the Fundamental Principles*.

SECTION 270

PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

Introduction

- 270.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 270.2 Pressure exerted on, or by, an assurance practitioner might create an intimidation or other threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- R270.3** An assurance practitioner shall not:
- (a) Allow pressure from others to result in a breach of compliance with the fundamental principles; or
 - (b) Place pressure on others that the assurance practitioner knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.
- 270.3 A1 An assurance practitioner might face pressure that creates threats to compliance with the fundamental principles, for example an intimidation threat, when undertaking a professional activity. Pressure might be explicit or implicit and might come from:
- Within the employing organisation, for example, from a colleague or superior.
 - An external individual or organisation such as a vendor, customer or lender.
 - Internal or external targets and expectations.
- 270.3 A2 Examples of pressure that might result in threats to compliance with the fundamental principles include:
- Pressure related to conflicts of interest:
 - Pressure from a family member bidding to act as a vendor to the assurance practitioner's employing organisation to select the family member over another prospective vendor.

See also Section 210, *Conflicts of Interest*.
 - Pressure to influence preparation or presentation of information:
 - Pressure to report misleading financial or non-financial results to meet investor, analyst, ~~or~~ lender or other stakeholder expectations.
 - Pressure from elected officials on public sector accountants to misrepresent programs or projects to voters.
 - Pressure to misrepresent, through labeling or otherwise, how certain programs, projects or products are aligned to or achieving sustainability goals.
 - Pressure from colleagues to misstate income, expenditure, ~~or~~ rates of return or sustainability information to bias decision-making on capital projects and acquisitions.

- Pressure from superiors to approve or process expenditures that are not legitimate business expenses.

- Pressure to suppress internal audit reports containing adverse findings.

See also Section 220, *Preparation and Presentation of Information*.

- Pressure to act without sufficient expertise or due care:

- Pressure from superiors to inappropriately reduce the extent of work performed.

- Pressure from superiors to perform a task without sufficient skills or training or within unrealistic deadlines.

- Pressure from superiors to prepare sustainability information with insufficient data or deficiencies in the quality and accuracy of data available.

See also Section 230, *Acting with Sufficient Expertise*.

- Pressure related to financial interests:

- Pressure from superiors, colleagues or others, for example, those who might benefit from participation in compensation or incentive arrangements to manipulate financial or non-financial performance indicators.

See also Section 240, *Financial Interests, Compensation and Incentives Linked to Financial or Non-Financial Reporting and Decision Making*.

- Pressure related to inducements:

- Pressure from others, either internal or external to the employing organisation, to offer inducements to influence inappropriately the judgement or decision making process of an individual or organisation.

- Pressure from colleagues to accept a bribe or other inducement, for example to accept inappropriate gifts or entertainment from potential vendors in a bidding process.

See also Section 250, *Inducements, Including Gifts and Hospitality*.

- Pressure related to non-compliance with laws and regulations:

- Pressure to structure a transaction to evade tax.

- Pressure to manipulate sustainability information to avoid fines for breaches of environmental laws and regulations.

See also Section 260, *Responding to Non-compliance with Laws and Regulations*.

- Pressure related to level of fees:

- Pressure exerted by an assurance practitioner on another assurance practitioner to provide assurance services at a fee level that does not allow for sufficient and appropriate resources (including human, technological and intellectual resources) to perform the services in accordance with standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

See also Section 330, *Fees and Other Types of Remuneration*

- 270.3 A3 Factors that are relevant in evaluating the level of threats created by pressure include:
- The intent of the individual who is exerting the pressure and the nature and extent of the pressure.
 - The application of laws, regulations, and professional standards to the circumstances.
 - The culture and leadership of the employing organisation including the extent to which they reflect or emphasise the importance of ethical behaviour and the expectation that employees will act ethically. For example, a corporate culture that tolerates unethical behaviour might increase the likelihood that the pressure would result in a threat to compliance with the fundamental principles.
 - Policies and procedures, if any, that the employing organisation has established, such as ethics or human resources policies that address pressure.
- 270.3 A4 Discussing the circumstances creating the pressure and consulting with others about those circumstances might assist the assurance practitioner to evaluate the level of the threat. Such discussion and consultation, which requires being alert to the principle of confidentiality, might include:
- Discussing the matter with the individual who is exerting the pressure to seek to resolve it.
 - Discussing the matter with the assurance practitioner's superior, if the superior is not the individual exerting the pressure.
 - Escalating the matter within the employing organisation, including when appropriate, explaining any consequential risks to the organisation, for example with:
 - Higher levels of management.
 - Internal or external auditors or the sustainability assurance practitioner.
 - Those charged with governance.
 - Disclosing the matter in line with the employing organisation's policies, including ethics and whistleblowing policies, using any established mechanism, such as a confidential ethics hotline.
 - Consulting with:
 - A colleague, superior, human resources personnel, or another assurance practitioner;
 - Relevant professional or regulatory bodies or industry associations; or
 - Legal counsel.
- 270.3 A5 An example of an action that might eliminate threats created by pressure is the assurance practitioner's request for a restructure of, or segregation of, certain responsibilities and duties so that the assurance practitioner is no longer involved with the individual or entity exerting the pressure.

Documentation

- 270.4 A1 The assurance practitioner is encouraged to document:
- The facts.
 - The communications and parties with whom these matters were discussed.
 - The courses of action considered.
 - How the matter was addressed.

PART 3 – APPLICATION OF THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK

(....)

Requirements and Application Material

General

R300.4 An assurance practitioner shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

R300.5 When dealing with an ethics issue, the assurance practitioner shall consider the context in which the issue has arisen or might arise. Where an individual who is an assurance practitioner is performing professional activities pursuant to the assurance practitioner's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

300.5 A1 Examples of situations in which the provisions in Part 2 apply to an assurance practitioner include:

- Facing a conflict of interest when being responsible for selecting a vendor for the firm when an immediate family member of the assurance practitioner might benefit financially from the contract. The requirements and application material set out in Section 210 apply in these circumstances.
- Preparing or presenting financial or non-financial, including sustainability, information for the assurance practitioner's client or firm. The requirements and application material set out in Section 220 apply in these circumstances.
- Being offered an inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the firm. The requirements and application material set out in Section 250 apply in these circumstances.
- Facing pressure from an engagement partner to report chargeable hours inaccurately for a client engagement. The requirements and application material set out in Section 270 apply in these circumstances.

NZ300.5A1.1 The International Independence Standards (New Zealand) prohibit the firm or a network firm from providing accounting and bookkeeping services including preparing financial statements on which the firm will express an opinion or a conclusion or financial information which forms the basis of such financial statements¹, except in limited circumstances as described in paragraph R601.5. Accordingly, the situation described in the second bullet point of paragraph 300.5 A1 in respect of an assurance practitioner's assurance client would not be permitted.

300.5 A2 The more senior the position of an assurance practitioner, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the firm. To the extent that they are able to do so, taking into account their position and seniority in the firm, assurance practitioners are expected to encourage and promote an ethics-based culture in the firm and exhibit ethical behaviour in dealings with individuals with whom, and entities with which, the assurance practitioner or the firm has a professional or business

¹ See Section 601, paragraphs R601.5 and R601.6

relationship in accordance with paragraph 120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Firm processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

Identifying Threats

300.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for an assurance practitioner when undertaking an assurance service:

(a) Self-interest Threats

- An assurance practitioner having a direct financial interest in a client.
- An assurance practitioner quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the assurance service in accordance with standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board for that price.
- An assurance practitioner having a close business relationship with a client.
- An assurance practitioner having access to confidential information that might be used for personal gain.
- An assurance practitioner discovering a significant error when evaluating the results of a previous assurance service performed by a member of the assurance practitioner's firm.
- An assurance practitioner having incentives linked to the outcome of a professional service to prepare sustainability information.

(b) Self-review Threats

- An assurance practitioner issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.
- An assurance practitioner having contributed to the preparation of the original data used to generate records that are the subject matter of the assurance engagement.

(c) Advocacy Threats

- An assurance practitioner promoting the interests of, or shares in, a client.
- An assurance practitioner acting as an advocate on behalf of a client in litigation or disputes with third parties.
- An assurance practitioner lobbying in favour of legislation on behalf of a client.
- An assurance practitioner promoting a particular sustainability-related initiative, product or service on behalf of a client.

(d) Familiarity Threats

- An assurance practitioner having a close or immediate family member who is a director or officer of the client.
 - A director or officer of the client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement partner.
 - An audit team member having a long association with the audit client.
 - An individual who is being considered to serve as an appropriate reviewer, as a safeguard to address a threat, having a close relationship with an individual who performed the work.
- (e) Intimidation Threats
- An assurance practitioner being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
 - An assurance practitioner feeling pressured to agree with the judgement of a client because the client has more expertise on the matter in question.
 - An assurance practitioner being informed that a planned promotion will not occur unless the assurance practitioner agrees with an inappropriate accounting treatment or sustainability-related analysis.
 - An assurance practitioner having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

Identifying Threats Associated with the Use of Technology

300.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for an assurance practitioner when undertaking a professional activity:

- Self-interest Threats
 - The data available might not be sufficient for the effective use of the technology.
 - The technology might not be appropriate for the purpose for which it is to be used.
 - The assurance practitioner might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.

(Ref: Para. 230.2).
- Self-review Threats
 - The technology was designed or developed using the knowledge, expertise or judgement of the assurance practitioner or firm.

Evaluating Threats

(....)

The Client and its Operating Environment

(....)

300.7 A4 The corporate governance structure, including the leadership of a client might promote compliance with the fundamental principles. Accordingly, an assurance practitioner's evaluation of the level of a threat might also be impacted by a client's operating environment. For example:

- The client requires appropriate individuals other than management to ratify or approve the appointment of a firm to perform an engagement.
- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that facilitate objective choices in tendering non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

300.7 A4a When preparing or presenting sustainability information, the assurance practitioner's evaluation of the level of a threat might be impacted by the quantitative and qualitative characteristics of a client's value chain. For example, the evaluation of a threat to compliance with the principle of professional competence and due care might be impacted if the sustainability information the assurance practitioner is preparing or presenting comes from multiple suppliers that are geographically dispersed or is prepared in accordance with different reporting frameworks.

The Firm and its Operating Environment

300.7 A5 An assurance practitioner's evaluation of the level of a threat might be impacted by the work environment within the assurance practitioner's firm and its operating environment. For example:

- Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that assurance team members will act in the public interest.
- Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.
- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.
- Management of the reliance on revenue received from a single client.
- The engagement partner having authority within the firm for decisions concerning compliance with the fundamental principles, including any decisions about accepting or providing services to a client.
- Educational, training and experience requirements.
- Processes to facilitate and address internal and external concerns or complaints.

(....)

Communicating with Those Charged with Governance

R300.9 When communicating with those charged with governance in accordance with the Code, an assurance practitioner shall determine the appropriate individual(s) within the entity's governance structure with whom to communicate. If the assurance practitioner communicates with a subgroup of those charged with governance, the assurance practitioner shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

300.9 A1 In determining with whom to communicate, an assurance practitioner might consider:

- (a) The nature and importance of the circumstances; and
- (b) The matter to be communicated.

- 300.9 A2 Examples of a subgroup of those charged with governance include an audit committee, another committee tasked with oversight of sustainability information, or an individual member of those charged with governance.
- R300.10** If an assurance practitioner communicates with individuals who have management responsibilities as well as governance responsibilities, the assurance practitioner shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the assurance practitioner would otherwise communicate.
- 300.10 A1 In some circumstances, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated to individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the assurance practitioner has satisfied the requirement to communicate with those charged with governance.

SECTION 310

CONFLICTS OF INTEREST

(....)

Requirements and Application Material

General

R310.4 An assurance practitioner shall not allow a conflict of interest to compromise professional or business judgement.

310.4 A1 Examples of circumstances that might create a conflict of interest include:

- Providing a transaction advisory service to a client seeking to acquire an audit client, where the firm has obtained confidential information during the course of the audit that might be relevant to the transaction.
- Providing advice to two clients at the same time where the clients are competing to acquire the same company and the advice might be relevant to the parties' competitive positions.
- Providing services to a seller and a buyer in relation to the same transaction.
- Preparing valuations of assets for two parties who are in an adversarial position with respect to the assets.
- Representing two clients in the same matter who are in a legal dispute with each other, such as during divorce proceedings, or the dissolution of a partnership.
- In relation to a license agreement, providing an assurance report for a licensor on the royalties due while advising the licensee on the amounts payable.
- Advising a client to invest in a business in which, for example, the spouse of the assurance practitioner has a financial interest.
- Providing strategic advice to a client on its competitive position while having a joint venture or similar interest with a major competitor of the client.
- Advising a client on acquiring a business which the firm is also interested in acquiring.
- Advising a client on buying a product or service while having a royalty or commission agreement with a potential seller of that product or service.
- Preparing or presenting sustainability information for a client while also being in a leadership position at a sustainability advocacy group that publicly challenges the client's sustainability targets or practices.

Conflict Identification

General

(....)

SECTION 320

PROFESSIONAL APPOINTMENTS

(....)

Requirements and Application Material

Client and Engagement Acceptance

General

- 320.3 A1 Threats to compliance with the principles of integrity or professional behaviour might be created, for example, from questionable issues associated with the client (its owners, management or activities). Issues that, if known, might create such a threat include client involvement in illegal activities, dishonesty, questionable financial or non-financial, including sustainability, reporting practices or other unethical behaviour.
- 320.3 A2 Factors that are relevant in evaluating the level of such a threat include:
- Knowledge and understanding of the client, its owners, management and those charged with governance and business activities.
 - The client's commitment to address the questionable issues, for example, through improving corporate governance practices or internal controls.
- 320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the team does not possess, or cannot acquire, the competencies to perform the professional services.
- 320.3 A4 Factors that are relevant in evaluating the level of such a threat include:
- An appropriate understanding of:
 - The nature of the client's business;
 - The complexity of its operations;
 - The quantitative and qualitative characteristics of the client's value chain, where applicable;
 - The requirements of the engagement; and
 - The purpose, nature and scope of the work to be performed.
 - Knowledge of relevant industries or subject matter.
 - Experience with relevant regulatory or reporting requirements.
 - Policies and procedures that the firm has implemented, as part of a system of quality management in accordance with quality management standards such as Professional and Ethical Standard 3, that respond to quality risks relating to the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.
 - The level of fees and the extent to which they have regard to the resources required, taking into account the assurance practitioner's commercial and market priorities.

320.3 A5 Examples of actions that might be safeguards to address a self-interest threat include:

- Assigning sufficient engagement personnel with the necessary competencies.
- Agreeing on a realistic time frame for the performance of the engagement.
- Using experts where necessary.

(....)

Client and Engagement Continuance

R320.9 For a recurring client engagement, an assurance practitioner shall periodically review whether to continue with the engagement.

320.9 A1 Potential threats to compliance with the fundamental principles might be created after acceptance which, had they been known earlier, would have caused the assurance practitioner to decline the engagement. For example, a self-interest threat to compliance with the principle of integrity might be created by improper earnings management, ~~or~~ balance sheet valuations or sustainability materiality assessments.

Using the Work of an Expert

[Placeholder – The new and revised provisions under the heading “Using the Work of an Expert” are included in the Exposure Draft addressing Using the Work of an External Expert]

(....)

SECTION 330

FEES AND OTHER TYPES OF REMUNERATION

(....)

Contingent Fees

330.4 A1 Contingent fees are used for certain types of non-assurance services. However, contingent fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances.

330.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the engagement.
- The range of possible fee amounts.
- The basis or metrics for determining the fee.
- Disclosure to intended users of the work performed by the assurance practitioner and the basis of remuneration.
- Quality management policies and procedures.
- Whether an independent third party is to review the outcome or result of the transaction.
- Whether the level of the fee is set by an independent third party such as a regulatory body.

330.4 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed by the assurance practitioner.
- Obtaining an advance written agreement with the client on the basis of remuneration.

(....)

AMENDMENTS TO THE GLOSSARY

Acceptable level	A level at which an assurance practitioner <u>or sustainability assurance practitioner</u> using the reasonable and informed third party test would likely conclude that the assurance practitioner <u>or sustainability assurance practitioner</u> complies with the fundamental principles.
Advertising	The communication to the public of information as to the services or skills provided by assurance practitioners <u>or sustainability assurance practitioners</u> with a view to procuring assurance business.
<u>Another Practitioner</u>	<p><u>A firm, other than the sustainability assurance practitioner's firm, that performs work that the sustainability assurance practitioner intends to use for the purposes of the sustainability assurance engagement, and the sustainability assurance practitioner is unable to be sufficiently and appropriately involved in that work.</u></p> <p><u>An individual from another practitioner who performs the work is neither a member of the engagement team nor a practitioner's expert.</u></p>
Appropriate reviewer	<p><i>An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided. Such an individual might be an assurance practitioner <u>or a sustainability assurance practitioner.</u></i></p> <p><i>This term is described in paragraphs <u>300.8 A4 and 5300.8 A4.</u></i></p>
Assurance client	<p>The responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party).</p> <p><u>In the case of a sustainability assurance engagement addressed in Part 5, see the definition of "sustainability assurance client."</u></p>
Assurance engagement	<p>An engagement in which an assurance practitioner aims to obtain sufficient appropriate evidence in order 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.</p> <p>(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 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) <u>and International Standards on Sustainability Assurance (New Zealand (ISSAs (NZ)) apply.)</u></p>

In Part 4B, the term "assurance engagement" addresses assurance engagements other than audit engagements, ~~or~~ review engagements, or sustainability assurance engagements addressed in Part 5.

- Assurance team
- (a) All members of the engagement team for the assurance engagement;
 - (b) All others within, or engaged by, the firm who can directly influence the outcome of the assurance engagement, including:
 - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement;
 - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
 - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement.

In the case of sustainability assurance engagements addressed in Part 5, see the definition of "sustainability assurance team."

- Attestation engagement
- An assurance engagement in which a party other than the assurance practitioner or the sustainability assurance practitioner, as applicable, measures or evaluates the underlying subject matter against the criteria.
- A party other than the assurance practitioner or the sustainability assurance practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the assurance practitioner or the sustainability assurance practitioner in the assurance report. In an attestation engagement, the assurance practitioner's or the sustainability assurance practitioner's conclusion addresses whether the subject matter information is free from material misstatement.
- The assurance practitioner's or the sustainability assurance practitioner's conclusion may be phrased in terms of:
- (i) The underlying subject matter and the applicable criteria;
 - (ii) The subject matter information and the applicable criteria; or
 - (iii) A statement made by the appropriate party.

Component (Audit and Review Engagements)

For a group audit, An entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for purposes of planning and performing audit procedures in the group audit.

Component (Sustainability)

For a group sustainability assurance engagement, an entity, business unit, function or business activity, or some combination thereof, within the

Assurance Engagements Addressed in Part 5) reporting boundary, determined by the group sustainability assurance firm for purposes of planning and performing the group sustainability assurance engagement. A component is either a group component or a value chain component.

Group component – in the context of a sustainability assurance engagement in Part 5, see separate definition.

Value chain component – in the context of a sustainability assurance engagement in Part 5, see separate definition.

Component practitioner A firm that performs assurance work related to a component for purposes of the group sustainability assurance engagement, and the group sustainability assurance firm is able to be sufficiently and appropriately involved in that work. The individuals from a component practitioner who perform the assurance work are members of the engagement team.

Conceptual framework *This term is described in Sections 120 and 5120.*

Cooling-off period *This term is described in paragraphs R540.75 and R5540.7 for the purposes of paragraphs R540.134 to R540.2149 and R5540.13 to R5540.21.*

Criteria In an assurance engagement, including a sustainability assurance engagement, the benchmarks used to measure or evaluate the underlying subject matter. The "applicable criteria" are the criteria used for the particular engagement.

Engagement leader An individual, appointed by the firm, who is responsible for the sustainability assurance engagement and its performance, and for the sustainability assurance report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. "Engagement leader" should be read as referring to its public sector equivalent where relevant.

In the case of audit and review engagements, see the definition of "engagement partner."

Engagement partner The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

In the case of a sustainability assurance engagement addressed in Part 5, see the definition of "engagement leader."

Engagement period (Sustainability Assurance Engagements) The engagement period starts when the sustainability assurance team begins to perform the sustainability assurance engagement. The engagement period ends when the sustainability assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the

Addressed in issuance of the final sustainability assurance report.
Part 5)

Engagement period (Assurance Engagements Other than Audit

The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.

Engagements,
and Review
Engagements,
and
Sustainability
Assurance
Engagements
Addressed in
Part 5)

Engagement quality reviewer

A leader or partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.

Engagement team

All leaders or partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding external experts and internal auditors who provide direct assistance on the engagement.

In Part 4A, the term "engagement team" refers to individuals performing audit or review procedures on the audit or review engagement, respectively. This term is further described in paragraph 400.9.

ISA (NZ) 220 (Revised) provides further guidance on the definition of engagement team in the context of an audit of financial statements.

ISA (NZ) 620 defines an auditor's expert as 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. ISA 620 deals with the auditor's responsibilities relating to the work of such experts.

ISA (NZ) 610 (Revised 2013) deals with the auditor's responsibilities if using the work of internal auditors, including using internal auditors to provide direct assistance on the audit engagement.

In Part 4B, the term "engagement team" refers to individuals performing assurance procedures on the assurance engagement.

In Part 5, the term "engagement team" refers to individuals performing assurance procedures on the sustainability assurance engagement. This excludes individuals whose work the sustainability assurance practitioner is not able to be sufficiently and appropriately involved in (e.g., individuals from "another practitioner"). This term is further described in paragraph 5400.10a

in Part 5.

Existing practitioner An individual or an entity currently holding an appointment to perform a sustainability assurance engagement or carrying out other professional services for a sustainability assurance client.

- Firm
- (a) A sole practitioner, partnership or corporation undertaking assurance engagements;
 - (b) An entity that controls such parties, through ownership, management or other means; and
 - (c) An entity controlled by such parties, through ownership, management or other means.

Paragraphs 400.4 and 900.3 explain how the word "firm" is used to address the responsibility of assurance practitioners and firms for compliance with Parts 4A and 4B, respectively.

Paragraph 5400.4 explains how the word "firm" is used to address the responsibility of individual sustainability assurance practitioners and firms for compliance with Part 5.

Fundamental principles *This term is described in paragraphs 110.1 A1 and 5110.1 A1. Each of the fundamental principles is, in turn, described in the following paragraphs:*

<i>Integrity</i>	<i>R111.1 and R5111.1</i>
<i>Objectivity</i>	<i>R112.1 and R5112.1</i>
<i>Professional competence and due care</i>	<i>R113.1 and R5113.1</i>
<i>Confidentiality</i>	<i>R114.1 to R114.3 and R5114.1 to R5114.3</i>
<i>Professional behaviour</i>	<i>R115.1 and R5115.1</i>

General purpose framework A reporting framework designed to meet the common information needs of a wide range of users. The framework may be a fair presentation framework or a compliance framework.

The term "fair presentation framework" is used to refer to a reporting framework that requires compliance with the requirements of the framework and:

- (a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the reported information, 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 reported information. Such departures are expected to be necessary only in extremely rare circumstances.

The term "compliance framework" is used to refer to a reporting framework

that requires compliance with the requirements of the framework, but does not contain the acknowledgments in (a) or (b) above.

In Part 5, general purpose framework refers to general purpose sustainability reporting frameworks.

Group A reporting entity for which group financial statements or group sustainability information are is prepared.

Group component (for a sustainability assurance engagement) A group component is a component required to be included in the reporting entity's group financial statements.

If the group component is:

(a) A legal entity, it is the entity and any related entities within the reporting boundary over which the entity has direct or indirect control; or

(b) A business unit, function or business activity (or some combination thereof), it is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.

Group engagement leader The engagement leader who is responsible for the group sustainability assurance engagement.

Group sustainability assurance client The entity on whose group sustainability information the group sustainability assurance firm conducts a sustainability assurance engagement. When the entity is a publicly traded entity, the group sustainability assurance client will always include its related entities and any other group components at which assurance work is performed. When the entity is not a publicly traded entity, the group sustainability assurance client includes related entities over which such entity has direct or indirect control and any other group components at which assurance work is performed.

See also paragraph R5400.27.

Group sustainability assurance engagement An assurance engagement on group sustainability information.

Group sustainability assurance firm The firm that expresses the opinion on the group sustainability information.

Group sustainability assurance team (a) All members of the engagement team for the group sustainability assurance engagement, including individuals within, or engaged by, component practitioners who perform assurance procedures related to components for purposes of the group sustainability assurance engagement;

(b) All others within, or engaged by, the group sustainability assurance

firm who can directly influence the outcome of the group sustainability assurance engagement, including:

- (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the group engagement leader in connection with the performance of the group sustainability assurance engagement, including those at all successively senior levels above the group engagement leader through to the individual who is the firm's Chief Executive or equivalent;
- (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the group sustainability assurance engagement; and
- (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the group sustainability assurance engagement;
- (c) Any other individuals within a network firm of the group sustainability assurance firm's network who can directly influence the outcome of the group sustainability assurance engagement; and
- (d) Any other individuals within a component practitioner outside the group sustainability assurance firm's network who can directly influence the outcome of the group sustainability assurance engagement.

Group sustainability information

Sustainability information that includes the sustainability information of more than one entity or business unit.

Independence

Independence comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or an audit, assurance, or sustainability assurance team member's, integrity, objectivity or professional scepticism has been compromised.

As set out in paragraphs 400.5, and 900.4 and 5400.5, references to an individual or firm being "independent" mean that the individual or firm has complied with Parts 4A, and 4B and 5, as applicable.

Inducement

An object, situation, or action that is used as a means to influence another individual's behaviour, but not necessarily with the intent to improperly influence that individual's behaviour.

Inducements can range from minor acts of hospitality between assurance practitioners and existing or prospective clients, or between sustainability

assurance practitioners and existing or prospective sustainability assurance clients, to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:

- Gifts.
- Hospitality.
- Entertainment.
- Political or charitable donations.
- Appeals to friendship and loyalty.
- Employment or other commercial opportunities.
- Preferential treatment, rights or privileges.

Key sustainability assurance leader

The engagement leader, the individual responsible for the engagement quality review, and other leaders, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the sustainability assurance engagement. Depending upon the circumstances and the role of the individuals on the sustainability assurance engagement, "other leaders" might include, for example, engagement leaders for certain group components in a group sustainability assurance engagement such as significant subsidiaries or divisions.

A sustainability assurance leader performing assurance work at a value chain component is not, as a result of that role, a key sustainability assurance leader for purposes of the group sustainability assurance engagement.

Leader

Any individual with authority to bind a firm with respect to the performance of a professional service.

This term is used in the context of sustainability assurance engagements in Part 5.

Network firm

A firm or entity that belongs to a network.

For further information, see paragraphs 400.50 A1 to 400.54 A1 in Part 4A and paragraphs 5400.50 A1 to 5400.54 A1 in Part 5.

Non-compliance with laws and regulations

Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

(Sustainability Assurance Practitioners)

- (a) A sustainability assurance client;
- (b) Those charged with governance of a sustainability assurance client;
- (c) Management of a sustainability assurance client; or
- (d) Other individuals working for or under the direction of a sustainability assurance client.

This term is described in paragraph 5360.5 A1.

<u>Predecessor practitioner</u>	<u>An individual or an entity who most recently held an appointment to perform a sustainability assurance engagement or carried out other professional services for a sustainability assurance client, where there is no existing practitioner.</u>
Professional activity	An activity requiring professional accountancy or related skills undertaken by an assurance practitioner <u>or a sustainability assurance practitioner</u> , including accounting, auditing, <u>sustainability reporting or assurance</u> , tax, management consulting, and financial management.
Professional judgement	<i>Professional judgement involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved.</i> <i>This term is described in paragraphs 120.5 A4 <u>and 5120.5 A4</u>.</i>
<u>Proposed practitioner</u>	<u>A sustainability assurance practitioner who is considering accepting an appointment to perform a sustainability assurance engagement or carry out other professional services for a prospective sustainability assurance client (or in some cases, an existing sustainability assurance client)</u>
Reasonable and informed third party	<i>The reasonable and informed third party test is a consideration by the assurance practitioner <u>or the sustainability assurance practitioner</u> about whether the same conclusions would likely be reached by another party.</i>
Reasonable and informed third party test	<i>Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the assurance practitioner <u>or the sustainability assurance practitioner</u> knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an assurance practitioner <u>or a sustainability assurance practitioner</u>, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the assurance practitioner's <u>or sustainability assurance practitioner's</u> conclusions in an impartial manner.</i> <i>These terms are described in paragraphs 120.5 A9 <u>and 5120.5 A9</u>.</i>
<u>Reporting boundary</u>	<u>Activities, operations, relationships or resources to be included in the entity's sustainability information.</u>
Safeguards	<i>Safeguards are actions, individually or in combination, that the assurance practitioner <u>or the sustainability assurance practitioner</u> takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.</i> <i>This term is described in paragraphs 120.10 A2 <u>and 5120.10 A2</u>.</i>
Substantial harm	<i>This term is described in paragraphs 260.5 A3, and 360.5 A3 <u>and 5360.5 A3</u>.</i>
<u>Sustainability</u>	<u>An entity in respect of which a firm conducts a sustainability assurance</u>

assurance client engagement. When the client is a publicly traded entity, sustainability assurance client will always include its related entities. When the sustainability assurance client is not a publicly traded entity, sustainability assurance client includes those related entities over which the client has direct or indirect control. (See also paragraph R5400.27.)

Sustainability assurance engagement An engagement in which a sustainability assurance 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.

A sustainability assurance engagement can be either 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 underlying subject matter against applicable criteria; or
- 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 judgement, 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.

Sustainability assurance practitioner The individual(s) conducting a sustainability assurance engagement (usually the engagement leader or other members of the engagement team, or, as applicable, the firm).

Sustainability assurance team (a) All members of the engagement team for the sustainability assurance engagement;

(b) All others within, or engaged by, the firm who can directly influence the outcome of the sustainability assurance engagement, including:

(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement leader in connection with the performance of the sustainability assurance engagement, including those at all

- successively senior levels above the engagement leader through to the individual who is the firm's Chief Executive;
- (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
- (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and
- (c) Any other individuals within a network firm who can directly influence the outcome of the sustainability assurance engagement.

Sustainability information

Information about sustainability matters.

Sustainability matters are 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.

Sustainability information includes information that may be:

- Expressed in financial or non-financial terms.
- Historical or forward-looking.
- Prepared for internal purposes or for mandatory or voluntary disclosure.
- Obtained from an entity or its value chain.
- Related to the quantitative or qualitative evaluation of an entity's past or expected performance over the short, medium or long term.
- Described in an entity's governance structure, policies, plans, goals, commitments or representations.
- About the effects (including risks and opportunities) of environmental, social, governance or other sustainability-related matters on an entity's business model, activities, services or products.
- About the effects of an entity's business model, activities, services or products on the environment, society or economy.

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 or the sustainability reporting process, as applicable. For some entities in some jurisdictions, those charged with governance might include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

Threats

This term is described in paragraphs 120.6 A3 and 5120.6 A3 and includes the following categories:

<i>Self-interest</i>	<i>120.6 A3(a) <u>and 5120.6 A3(a)</u></i>
<i>Self-review</i>	<i>120.6 A3(b) <u>and 5120.6 A3(b)</u></i>

Advocacy	120.6 A3(c) <u>and 5120.6 A3(c)</u>
Familiarity	120.6 A3(d) <u>and 5120.6 A3(d)</u>
Intimidation	120.6 A3(e) <u>and 5120.6 A3(e)</u>

Time-on period *This term is described in paragraphs R540.75 in Part 4A and R5540.7 in Part 5*

Value Chain *The value chain is a reporting concept that is defined, described or otherwise specified in the applicable sustainability reporting framework.*
The value chain might include, for example, certain sustainability assurance client's customers and suppliers for sustainability reporting purposes.

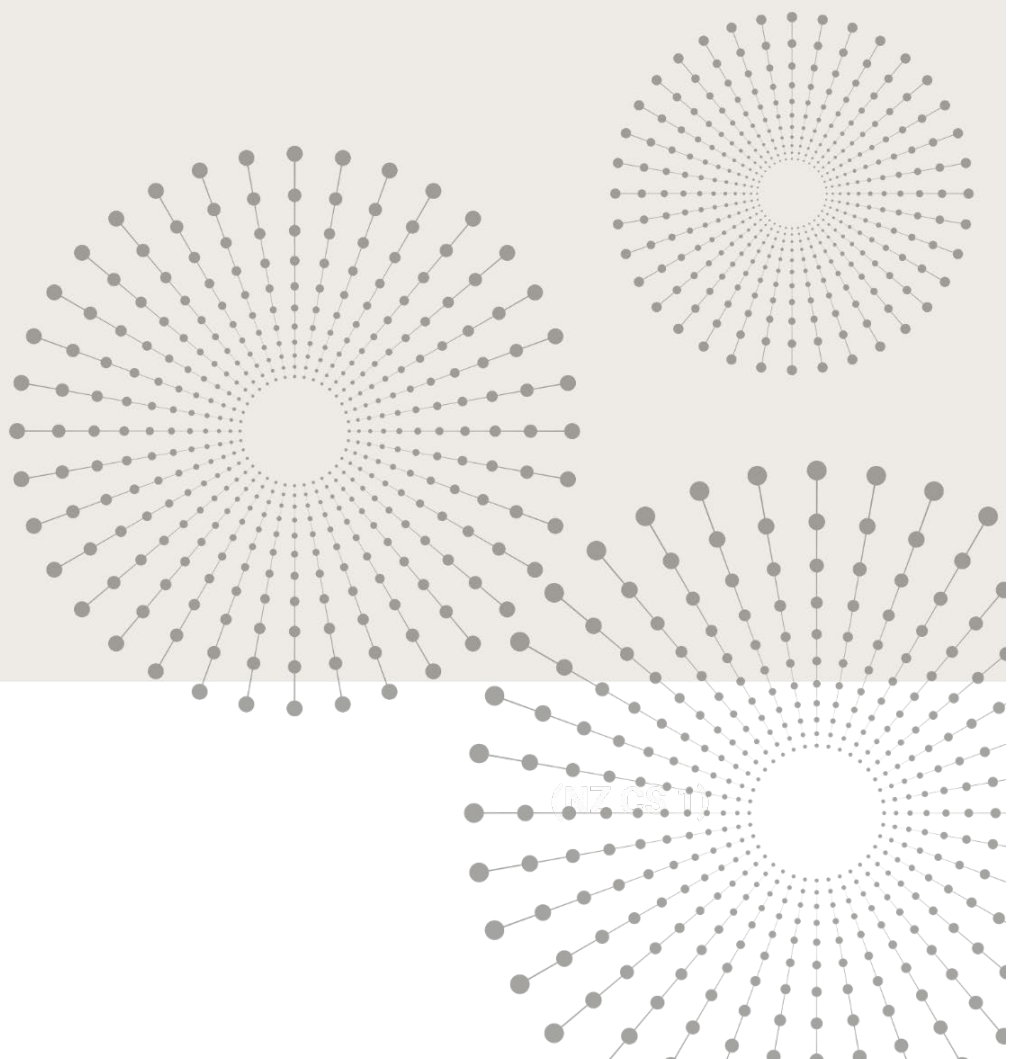
Value chain component (for a sustainability assurance engagement) *A value chain component is a component within the reporting entity's value chain that is not included in the group financial statements.*
If the value chain component is:
 (a) *A legal entity, it is the entity; or*
 (b) *A business unit, function or business activity (or some combination thereof), it is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.*

Revisions to the Code Addressing Using the Work of an External Expert (New Zealand)

Exposure Draft

Submissions close (TBC)

June 2025



(NZ GST)

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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 2019¹. Early adoption is permitted.

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:
 - for an **early adopter**, those accounting periods, following and including, the **early adoption accounting period**.
 - for any other auditor, assurance practitioner or firm, 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, assurance practitioner or firm that applies this standard for an early adoption accounting period.

early adoption accounting period means the accounting period:

- 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
- for which the early adopter:
 - first applies this standard for an audit engagement or an assurance engagement; and
 - discloses in the auditor's report or the assurance report for that accounting period that this standard has been applied for that period.

mandatory date means 15 December 2026.

¹ The standard was published on [Date]

SECTION 220 (MARK-UP FROM EXTANT PES 1) (strike through and underlines show changes to extant PES 1)

PREPARATION AND PRESENTATION OF INFORMATION

...

Requirements and Application Material

General

...

Using the Work of Others

R220.7 An assurance practitioner who intends to use the work of others, ~~(whether internal or external to the employing organisation),~~ or other organisations, ~~other than external experts,~~ shall exercise professional judgement to determine the appropriate steps to take, if any, in order to fulfil the responsibilities set out in paragraph R220.4.

220.7 A1 ~~When an assurance practitioner intends to use the work of an external expert, the requirements and application material set out in Section 290 apply.~~

220.7 A~~2~~⁴ Factors to consider when an assurance practitioner intends to use the work of others include:

- The reputation and expertise of, and resources available to, the other individual or organisation.
- Whether the other individual is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the other individual or organisation.

...

SECTION 290 (NEW) (strike through and underlines show changes from the IESBA's drafting for information only. The track changes will not be shown in the ED, the whole text will be underlined)

USING THE WORK OF AN EXTERNAL EXPERT

Introduction

- 290.1 ~~Professional accountant~~Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 290.2 ~~A professional accountant~~An assurance practitioner might use the work of an external expert in the performance of a professional activity for their employing ~~organization~~organisation. Using the work of such an external expert might create threats to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional competence and due care.
- 290.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to using the work of an external expert.

Requirements and Application Material

General

- 290.4 A1 A self-interest threat to compliance with the principles of integrity and professional competence and due care is created if ~~a professional accountant~~an assurance practitioner performs a professional activity for which the ~~accountant~~assurance practitioner has insufficient expertise.
- 290.4 A2 An action that might be a safeguard to address such a threat is to use the work of an external expert for the professional activity who has the competence, capabilities and objectivity to deliver the work needed for such activity.
- 290.4 A3 An external expert might be used to undertake specific work to support a professional activity performed by ~~a professional accountant~~an assurance practitioner. Such work can be in a field that is well-established or emerging. Examples of such work include:
- The valuation of assets such as complex financial instruments, land and buildings, plant and machinery, ~~jewelry~~jewellery, works of art, antiques, intangible assets, assets acquired in business combinations, and assets that may have been impaired.
 - The valuation of liabilities such as those assumed in business combinations, those from actual or threatened litigation, environmental liabilities, complex financial instruments, site clean-up liabilities, and those associated with insurance contracts or employee benefit plans.
 - The calculation of greenhouse gas emissions.
 - The measurement of pollutants emitted to air, water and soil.
 - The assessment of forward-looking information about the decarbonizisation plans of an entity.
 - The assessment of the application of offsetting mechanisms for an entity, such as for carbon or biodiversity.
 - The valuation of products and materials designed along principles for a sustainable economy.
 - The estimation of oil and gas reserves.
 - The interpretation of contracts, laws and regulations, including tax and ~~labor~~labour laws and regulations.

- The assessment and evaluation of IT systems, including those related to cybersecurity.

290.4 A4 This section does not apply to:

- (a) The use of the work of individuals or ~~organization~~organisations that are engaged by the ~~professional accountant~~assurance practitioner and are under the ~~accountant's~~assurance practitioner's direction, supervision and review, for example, subcontractors; and
- (b) The use of information provided by individuals or ~~organization~~organisations that are external information sources for general use. Examples of those information sources include those that provide industry or other benchmarking data or studies, such as information about employment statistics including hours worked and compensation per week by geographical area, real estate prices, carbon emissions by vehicle type, mortality tables, or other datasets for general use.

Agreeing the Terms of Engagement with an External Expert

R290.5 If the ~~professional accountant~~assurance practitioner has determined to use an external expert for a professional activity and, having regard to the employing ~~organization~~organisation's policies and procedures, has identified an external expert for such purpose, ~~the accountant~~the assurance practitioner shall agree the terms of engagement with the external expert, including the nature, scope and objectives of the work to be performed by the external expert.

290.5 A1 In agreeing the terms of engagement, matters that ~~the professional accountant~~the assurance practitioner might discuss with the external expert include:

- The intended use and timing of the external expert's work.
- The external expert's planned approach to the work.
- Expectations regarding:
 - The confidentiality of the external expert's work and the inputs to that work.
 - The information to be provided by the external expert and the nature of such information.
 - The content and format of the external expert's completed work, including any assumptions made and limitations to that work.
 - The fees for the external expert's work.
 - The external expert's communication of any non-compliance or suspected non-compliance with laws and regulations committed by ~~the professional accountant~~the assurance practitioner's employing ~~organization~~organisation, or by those charged with governance, management or others working for or under the direction of the employing ~~organization~~organisation, of which the external expert becomes aware when performing the work.

290.5 A2 A self-interest, self-review, familiarity or advocacy threat to compliance with the principles of integrity, objectivity and professional competence and due care might be created if ~~a professional accountant~~an assurance practitioner uses an external expert who does not have the necessary competence, capabilities or objectivity to deliver the work needed for the particular professional activity.

Evaluating the External Expert's Competence, Capabilities, and Objectivity

R290.6 The ~~professional accountant~~assurance practitioner shall evaluate whether the external expert has the necessary competence for ~~the accountant~~the assurance practitioner's purpose.

290.6 A1 Competence relates to the nature and level of expertise of the external expert.

290.6 A2 Factors that are relevant in evaluating whether the external expert has the necessary competence include:

- Whether the external expert's credentials, education, training, experience and reputation are relevant to, or consistent with, the nature of the work to be performed.
- Whether the external expert belongs to a relevant professional body or is subject to oversight by a regulatory body or other authority, and, if so, whether the external expert is in good standing.
- Whether any disciplinary actions have been published by a regulatory body or other authority relating to the external expert's competence.
- Whether the external expert's work is subject to legal and regulatory requirements or professional standards issued by a recognised body, or follows generally accepted principles or practices in the external expert's field or area of expertise.
- Whether the external expert can explain their work, including the inputs, assumptions and methodologies used.
- Whether the external expert has a history of performing similar work.

R290.7 ~~The professional accountant~~The assurance practitioner shall evaluate whether the external expert has the necessary capabilities for ~~the accountant~~the assurance practitioner's purpose.

290.7 A1 Capabilities relates to the ability of the external expert to exercise their competence in the circumstances of the professional activity.

290.7 A2 Factors that are relevant in evaluating whether the external expert has the necessary capabilities include:

- The resources available to the external expert.
- Whether the external expert has sufficient time to perform the work.

R290.8 ~~The professional accountant~~The assurance practitioner shall evaluate whether the external expert has the necessary objectivity for ~~the accountant~~the assurance practitioner's purpose.

290.8 A1 Objectivity relates to the possible effects that bias, conflict of interest, or the undue influence of, or undue reliance on, others might have on the professional or business ~~judgment~~judgement of the external expert.

290.8 A2 Factors that are relevant in identifying threats to the objectivity of the external expert for the period during which the external expert is performing the work include:

- Whether the external expert or their employing ~~organization~~organisation has an actual or potential conflict of interest or other interests in relation to the work the external expert is performing at the entity.
- Whether ~~the professional accountant~~the assurance practitioner is aware of any potential bias that might affect the external expert's work.
- Whether the external expert is charging a contingent fee, and if so, the basis for such fee.
- Whether the external expert will evaluate or rely on any previous ~~judgment~~judgements made or activities performed by the external expert or their employing ~~organization~~organisation in relation to the subject matter of the external expert's work.

- 290.8 A3 The external expert's employing ~~organization~~organisation is the entity that directly employs the expert, regardless of the legal form of the employment, and does not extend to other entities that might control, or are otherwise related to, the employing ~~organization~~organisation.
- 290.8 A4 Other interests that might impact the level of threat to an external expert's objectivity include significant financial interests such as those arising from compensation, fees or incentive arrangements linked to financial and non-financial information and decision-making.
- 290.8 A5 Examples of previous ~~judgment~~judgements made or activities performed by an external expert or their employing ~~organization~~organisation that might create a self-review threat to the external expert's objectivity include:
- Having advised the entity on the matter for which the external expert is performing the work.
 - Having produced data or other information, or having designed, developed, implemented, operated, maintained, monitored, updated or upgraded an IT system, for the entity which is then used by the external expert in performing the work or is the subject of that work.
- 290.8 A6 Factors that are relevant in evaluating the level of such threats to the external expert's objectivity include:
- The existence of conditions, policies and procedures established by the external expert's profession, legislation, regulation, or the external expert's employing ~~organization~~organisation, including whether the external expert is subject to ethics standards issued by a body responsible for issuing such standards in the external expert's field of expertise.
 - The nature and scope of the external expert's work.
 - The existence and adequacy of any quality management system employed by the external expert.
- 290.8 A7 Examples of actions that might be safeguards to address threats to an external expert's objectivity include:
- Consulting with qualified personnel, or a professional outside ~~the professional accountant~~the assurance practitioner's employing ~~organization~~organisation, who have the necessary expertise to evaluate the external expert's work for the intended purpose.
 - Requesting the external expert to take steps to address a conflict of interest, for example, implementing measures to segregate the work from such conflict of interest.
 - Restructuring or reassigning the part of the external expert's work giving rise to the threat to another external expert.

Sources of Information

- 290.9 A1 Information about the external expert's competence, capabilities and objectivity might be obtained from various sources, including:
- Personal association or experience with previous work undertaken by the external expert.
 - ~~Inquiry~~Enquiry of others within or outside ~~the professional accountant~~the assurance practitioner's employing ~~organization~~organisation who are familiar with the external expert's work.
 - Discussion with the external expert about their background, including their field of expertise and business activities.
 - ~~Inquiry~~Enquiry of the external expert's professional body or industry association.

- Articles, papers or books written by the external expert and published by a recognized publisher or in a recognized journal or other medium.
- Published records, such as legal proceedings involving the external expert.
- ~~Inquiry~~Enquiry of management of ~~the professional accountant~~the assurance practitioner's employing ~~organization~~organisation and, if different, the entity at which the external expert is performing the work regarding any interests and relationships between the external expert and the employing ~~organization~~organisation or the entity.
- The internal controls, policies and procedures of ~~the professional accountant~~the assurance practitioner's employing ~~organization~~organisation.

Additional Considerations when Evaluating Competence, Capabilities and Objectivity

290.10. A1 Evaluating whether an external expert has the necessary competence, capabilities and objectivity for ~~the professional accountant~~the assurance practitioner's purpose involves exercising professional ~~judgment~~judgement and using the reasonable and informed third party test.

290.10 A2 ~~A professional accountant~~An assurance practitioner might face pressure to breach the fundamental principles if ~~the accountant~~the assurance practitioner encounters difficulties in concluding, or is unable to conclude, that the external expert has the necessary competence, capabilities and objectivity for ~~the accountant~~the assurance practitioner's purpose when the external expert has already performed a significant portion of their work. In such circumstances, Section 270 is relevant in considering how to address such pressure.

Consideration of New Information or Changes in Facts or Circumstances

R290.11 The ~~professional accountant~~assurance practitioner shall re-evaluate whether the external expert has the necessary competence, capabilities and objectivity for ~~the accountant~~the assurance practitioner's purpose when new information or changes in facts and circumstances arise.

Concluding on the External Expert's Competence, Capabilities and Objectivity

R290.12 ~~The professional accountant~~The assurance practitioner shall not use the work of the external expert if ~~the accountant~~the assurance practitioner:

- (a) Is unable to determine whether the external expert has the necessary competence or capabilities, or is objective;
- (b) Determines that the external expert does not have the necessary competence or capabilities for ~~the accountant~~the assurance practitioner's purpose; or
- (c) Determines that there are threats to the external expert's objectivity that cannot be eliminated or reduced to an acceptable level.

290.12 A1 If ~~a professional accountant~~an assurance practitioner uses the work of such external expert, this creates threats to ~~the accountant~~the assurance practitioner's compliance with the principles of integrity, objectivity and professional competence and due care that cannot be eliminated or reduced to an acceptable level by the application of safeguards.

Potential Threats Arising from Using the Work of an External Expert

290.13 A1 Threats to compliance with the fundamental principles might still be created from using the work of an external expert even if ~~a professional accountant~~an assurance practitioner has satisfactorily concluded

that the external expert has the necessary competence, capabilities and objectivity for ~~the accountant~~the assurance practitioner's purpose.

Identifying Threats

290.14 A1 Examples of facts and circumstances that might create threats to ~~a professional accountant~~an assurance practitioner's compliance with the fundamental principles when using an external expert's work include:

- (a) Self-interest threats
 - ~~A professional accountant~~An assurance practitioner has insufficient expertise to understand and explain the external expert's conclusions and findings.
 - ~~A professional accountant~~An assurance practitioner has undue influence from, or undue reliance on, the external expert or multiple external experts when performing a professional activity.
 - ~~A professional accountant~~An assurance practitioner has insufficient time or resources to evaluate the external expert's work.
- (b) Self-review threats
 - ~~A professional accountant~~An assurance practitioner uses the work of an external expert who relies on previous ~~judgment~~judgements made by ~~the accountant~~the assurance practitioner and provided to the external expert for the purposes of their work.
- (c) Advocacy threats
 - ~~A professional accountant~~An assurance practitioner promotes the use of an external expert who has known bias towards conclusions potentially advantaging or disadvantaging ~~the professional accountant~~the assurance practitioner's employing ~~organization~~organisation.
- (d) Familiarity threats
 - ~~A professional accountant~~An assurance practitioner has a close personal relationship with the external expert.
- (e) Intimidation threats
 - ~~A professional accountant~~An assurance practitioner feels pressure to defer to the external expert's opinion due to the external expert's perceived authority.
 - ~~A professional accountant~~An assurance practitioner feels pressure to use the work of a particular external expert in order to meet internal or external targets and expectations.

Evaluating Threats

290.15 A1 Factors that are relevant in evaluating the level of such threats include:

- The scope and purpose of the external expert's work.
- The impact of the external expert's work on ~~the professional accountant~~the assurance practitioner's activity.
- The nature of the professional activity for which the external expert's work is intended to be used.
- ~~The professional accountant~~The assurance practitioner's oversight relating to the use of the external expert and the external expert's work.

- The appropriateness of, and transparency over, the data, assumptions and other inputs and methods used by the external expert.
- ~~The professional accountant~~The assurance practitioner's ability to understand and explain the external expert's work and its appropriateness for the intended purpose.
- Whether the external expert's work is subject to technical performance standards or other professional or industry generally accepted practices, or law or regulation.
- Whether the external expert's work, if it were to be performed by two or more parties, is not likely to be materially different.
- The consistency of the external expert's work, including the external expert's conclusions or findings, with other information.
- The availability of other evidence, including peer-reviewed academic research, to support the external expert's approach.
- Whether there is pressure being exerted by ~~the professional accountant~~the assurance practitioner's employing ~~organization~~organisation to accept the external expert's conclusions or findings due to the time or cost spent by the external expert in performing the work.

Addressing Threats

290.16 A1 An example of an action that might eliminate a familiarity threat is identifying a different external expert to use.

290.16 A2 Examples of actions that might be safeguards to address threats include:

- Consulting with qualified personnel, or a professional outside ~~the professional accountant~~the assurance practitioner's employing ~~organization~~organisation, who have the necessary expertise to evaluate the external expert's work, obtaining additional input, or challenging the appropriateness of the external expert's work for the intended purpose.
- Using another external expert to reperform the external expert's work.
- Agreeing with management of ~~the professional accountant~~the assurance practitioner's employing ~~organization~~organisation additional time or resources to complete the activity.

Other Matters

External Experts in Emerging Fields or Areas

290.17 A1 Expertise in emerging fields or areas might evolve depending on how laws, regulations and generally accepted practices develop. Emerging fields might also involve multiple areas of expertise. There might therefore be limited availability of external experts in emerging fields or areas.

290.17 A2 Information relating to some of the factors relevant to evaluating the competence of an external expert in paragraph 290.6 A2 might not be available in an emerging field or area. For example, there might not be public recognition of the external expert, professional standards might not have been developed, or professional bodies might not have been established in the emerging field. In such circumstances, a factor that might assist ~~the professional accountant~~the assurance practitioner in evaluating an external expert's competence is the external expert's experience in a similar field to the emerging field, or in an established field, that provides a reasonable basis for the external expert's work in the emerging field.

Communicating with Management and Those Charged with Governance When Using the Work of an External Expert

290.18 A1 Where appropriate, ~~the professional accountant~~the assurance practitioner is encouraged to communicate with management and those charged with governance:

- The purpose of using an external expert and the scope of the external expert's work.
- The respective roles and responsibilities of ~~the accountant~~the assurance practitioner and the external expert in the performance of the professional activity.
- Any threats to ~~the accountant~~the assurance practitioner's compliance with the fundamental principles created by using the external expert's work and how they have been addressed.

Documentation

290.19 A1 ~~The professional accountant~~The assurance practitioner is encouraged to document:

- The steps taken by ~~the accountant~~the assurance practitioner to evaluate the external expert's competence, capabilities and objectivity, and the resulting conclusions.
- Any significant threats identified by ~~the accountant~~the assurance practitioner in using the external expert's work and the actions taken to address the threats.
- The results of any significant discussions with the external expert.

SECTION 320 (MARK-UP FROM EXTANT PES 1) (strike through and underlines show changes to extant PES 1)

PROFESSIONAL APPOINTMENTS

...

Requirements and Application Material

...

Using the Work of an Expert

R320.10 When an assurance practitioner intends to use the work of an expert in the course of undertaking a professional activity, the assurance practitioner shall determine whether the use is appropriate for the intended purpose.

320.10 A1 For the purposes of this section, the work of an external expert is excluded. When an assurance practitioner intends to use the work of an external expert, the requirements and application material set out in Section 390 apply.

320.10 A~~2~~⁴ Factors to consider when an assurance practitioner intends to use the work of an expert include:

- The reputation and expertise of, and the resources available to, the expert.
- Whether the expert is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the expert.

...

...

SECTION 390 (NEW) (strike through and underlines show changes from the IESBA's drafting for information only. The track changes will not be shown in the ED, the whole text will be underlined)

USING THE WORK OF AN EXTERNAL EXPERT

Introduction

- 390.1 ~~Professional accountant~~Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 390.2 ~~A professional accountant~~An assurance practitioner might use the work of an external expert in the performance of a professional service. Using the work of such an external expert might create threats to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional competence and due care.
- 390.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to using the work of an external expert. Section 5390 addresses using the work of an external expert in sustainability assurance engagements or other professional services provided to the same sustainability assurance client. Other professional standards might address the competence, capabilities and objectivity of an external expert as factors that significantly affect whether the work of the external expert will be adequate for ~~the professional accountant~~the assurance practitioner's purposes.

Requirements and Application Material

General

- 390.4 A1 A self-interest threat to compliance with the principles of integrity and professional competence and due care is created if ~~a professional accountant~~an assurance practitioner performs a professional service for which ~~the accountant~~the assurance practitioner has insufficient expertise.
- 390.4 A2 An action that might be a safeguard to address such a threat is to use the work of an external expert for the professional service who has the competence, capabilities and objectivity to deliver the work needed for such service.
- 390.4 A3 An external expert might be used to undertake specific work to support a professional service provided by ~~a professional accountant~~an assurance practitioner. Such work can be in a field that is well-established or emerging. Examples of such work include:
- The valuation of assets such as complex financial instruments, land and buildings, plant and machinery, ~~jewelry~~jewellery, works of art, antiques, intangible assets, assets acquired in business combinations, and assets that may have been impaired.
 - The valuation of liabilities such as those assumed in business combinations, those from actual or threatened litigation, environmental liabilities, complex financial instruments, site clean-up liabilities, and those associated with insurance contracts or employee benefit plans.
 - The calculation of greenhouse gas emissions.
 - The measurement of pollutants emitted to air, water and soil.
 - The assessment of forward-looking information about the decarbon~~iz~~isation plans of an entity.
 - The assessment of the application of offsetting mechanisms for an entity, such as for carbon or biodiversity.

- The valuation of products and materials designed along principles for a sustainable economy.
- The estimation of oil and gas reserves.
- The interpretation of contracts, laws and regulations, including tax and ~~labor~~labour laws and regulations.
- The assessment and evaluation of IT systems, including those related to cybersecurity.

390.4 A4 This section does not apply to:

- (a) The use of the work of an expert employed or engaged by the client to assist the client in preparing the financial or non-financial information. Such work is deemed to be information provided by management;
- (b) The use of the work of individuals or ~~organization~~organisations that are engaged by the ~~professional accountant~~assurance practitioner and are under ~~the accountant~~the assurance practitioner's direction, supervision and review, for example, subcontractors; and
- (c) The use of information provided by individuals or ~~organization~~organisations that are external information sources for general use. Examples of those information sources include those that provide industry or other benchmarking data or studies, such as information about employment statistics including hours worked and compensation per week by geographical area, real estate prices, carbon emissions by vehicle type, mortality tables, or other datasets for general use.

390.4 A5 This section does not address ~~a professional accountant~~an assurance practitioner's evaluation of the adequacy of an external expert's work for purposes of a professional service undertaken by ~~the accountant~~the assurance practitioner, and the implications for the engagement if ~~the accountant~~the assurance practitioner determines that such work is not adequate. Such implications might be addressed in other professional standards.

Agreeing the Terms of Engagement with an External Expert

All Professional Services

R390.5 If the ~~professional accountant~~assurance practitioner has determined to use an external expert for a professional service and has identified an external expert for such purpose, ~~the accountant~~the assurance practitioner shall, to the extent not otherwise addressed by law, regulation or other professional standards, agree the terms of engagement with the external expert, including:

- (a) The nature, scope and objectives of the work to be performed by the external expert; and
- (b) In the context of audit, review or other assurance engagements:
 - (i) The provision of information in writing for purposes of assisting ~~the accountant~~the assurance practitioner's evaluation of the external expert's objectivity; and
 - (ii) A commitment from the external expert to communicate any changes to the information provided during the period covered by the audit, review or other assurance report through to the issuance of that report.

390.5 A1 In agreeing the terms of engagement, matters that the ~~professional accountant~~assurance practitioner might discuss with the external expert include:

- The intended use and timing of the external expert's work.
- The external expert's planned approach to the work.
- Expectations regarding:

- The confidentiality of the external expert's work and the inputs to that work.
- The information to be provided by the external expert and the nature of such information.
- The content and format of the external expert's completed work, including any assumptions made and limitations to that work.
- The fees for the external expert's work.
- The external expert's communication of any non-compliance or suspected non-compliance with laws and regulations committed by the client, or by those charged with governance, management or others working for or under the direction of the client, of which the external expert becomes aware when performing the work.

390.5 A2 A self-interest, self-review, familiarity or advocacy threat to compliance with the principles of integrity, objectivity and professional competence and due care might be created if a professional accountant an assurance practitioner uses an external expert who does not have the necessary competence, capabilities or objectivity to deliver the work needed for the particular professional service.

Evaluating the External Expert's Competence, Capabilities, and Objectivity

All Professional Services

R390.6 The professional accountant assurance practitioner shall evaluate whether the external expert has the necessary competence for ~~the accountant~~ the assurance practitioner's purpose.

390.6 A1 Competence relates to the nature and level of expertise of the external expert.

390.6 A2 Factors that are relevant in evaluating whether the external expert has the necessary competence include:

- Whether the external expert's credentials, education, training, experience and reputation are relevant to, or consistent with, the nature of the work to be performed.
- Whether the external expert belongs to a relevant professional body or is subject to oversight by a regulatory body or other authority, and, if so, whether the external expert is in good standing.
- Whether any disciplinary actions have been published by a regulatory body or other authority relating to the external expert's competence.
- Whether the external expert's work is subject to legal and regulatory requirements or professional standards issued by a recognised body, or follows generally accepted principles or practices in the external expert's field or area of expertise.
- Whether the external expert can explain their work, including the inputs, assumptions and methodologies used.
- Whether the external expert has a history of performing similar work.

R390.7 The professional accountant assurance practitioner shall evaluate whether the external expert has the necessary capabilities for ~~the accountant~~ the assurance practitioner's purpose.

390.7 A1 Capabilities relates to the ability of the external expert to exercise their competence in the circumstances of the professional service.

390.7 A2 Factors that are relevant in evaluating whether the external expert has the necessary capabilities include:

- The resources available to the external expert.

- Whether the external expert has sufficient time to perform the work.

R390.8 The ~~professional accountant~~assurance practitioner shall evaluate whether the external expert has the necessary objectivity for ~~the accountant~~the assurance practitioner's purpose.

390.8 A1 Objectivity relates to the possible effects that bias, conflict of interest, or the undue influence of, or undue reliance on, others might have on the professional or business ~~judgment~~judgement of the external expert.

390.8 A2 Factors that are relevant in identifying threats to the objectivity of the external expert for the period during which the external expert is performing the work include:

- Whether the external expert or their employing ~~organization~~organisation has an actual or potential conflict of interest in relation to the work the external expert is performing at the entity.
- Whether the ~~professional accountant~~assurance practitioner is aware of any potential bias that might affect the external expert's work.
- Whether the external expert is charging a contingent fee, and if so, the basis for such fee.
- Whether the external expert will evaluate or rely on any previous ~~judgment~~judgements made or activities performed by the external expert or their employing ~~organization~~organisation in relation to the subject matter of the external expert's work.

390.8 A3 The external expert's employing ~~organization~~organisation is the entity that directly employs the expert, regardless of the legal form of the employment, and does not extend to other entities that might control, or are otherwise related to, the employing ~~organization~~organisation.

390.8 A4 Examples of previous ~~judgment~~judgements made or activities performed by an external expert or their employing ~~organization~~organisation that might create a self-review threat to the external expert's objectivity include:

- Having advised the entity on the matter for which the external expert is performing the work.
- Having produced data or other information, or having designed, developed, implemented, operated, maintained, monitored, updated or upgraded an IT system, for the entity which is then used by the external expert in performing the work or is the subject of that work.

390.8 A5 Factors that are relevant in evaluating the level of such threats to the external expert's objectivity include:

- The existence of conditions, policies and procedures established by the external expert's profession, legislation, regulation, or the external expert's employing ~~organization~~organisation, including whether the external expert is subject to ethics standards issued by a body responsible for issuing such standards in the external expert's field of expertise.
- The nature and scope of the external expert's work.
- The existence and adequacy of any quality management system employed by the external expert.

390.8 A6 Examples of actions that might be safeguards to address threats to an external expert's objectivity include:

- Consulting with qualified personnel, or a professional outside the ~~professional accountant~~assurance practitioner's firm, who have the necessary expertise to evaluate the external expert's work for the intended purpose.
- Requesting the external expert to take steps to address a conflict of interest, for example,

implementing measures to segregate the work from such conflict of interest.

- Restructuring or reassigning the part of the external expert's work giving rise to the threat to another external expert.

Sources of Information

390.9 A1 Information about the external expert's competence, capabilities and objectivity might be obtained from various sources, including:

- Personal association or experience with previous work undertaken by the external expert.
- Inquiry/Enquiry of others within or outside the professional accountant/assurance practitioner's firm who are familiar with the external expert's work.
- Discussion with the external expert about their background, including their field of expertise and business activities.
- Inquiry/Enquiry of the external expert's professional body or industry association.
- Articles, papers or books written by the external expert and published by a recognised publisher or in a recognised journal or other medium.
- Published records, such as legal proceedings involving the external expert.
- Inquiry/Enquiry of the client and, if different, the entity at which the external expert is performing the work regarding any interests and relationships between the external expert and the client or the entity.
- The system of quality management of the professional accountant/assurance practitioner's firm.

Additional Considerations when Evaluating Competence, Capabilities and Objectivity

390.10 A1 Evaluating whether an external expert has the necessary competence, capabilities and objectivity for the professional accountant/assurance practitioner's purpose involves exercising professional judgment/judgement and using the reasonable and informed third party test.

390.10 A2 ~~A professional accountant~~An assurance practitioner might face pressure to breach the fundamental principles if ~~the accountant~~the assurance practitioner encounters difficulties in concluding, or is unable to conclude, that the external expert has the necessary competence, capabilities and objectivity for ~~the accountant~~the assurance practitioner's purpose when the external expert has already performed a significant portion of their work. In such circumstances, Section 270 is relevant in considering how to address such pressure.

Additional Objectivity Considerations for Audit Engagements, Review Engagements and Other Assurance Engagements Outside the Scope of Part 5

390.11 A1 Stakeholders have heightened expectations regarding the objectivity of an external expert whose work is used in an audit engagement, review engagement or other assurance engagement outside the scope of Part 5. Therefore, paragraphs R390.12 to R390.19 set out further actions in evaluating the objectivity of an external expert in such engagements, pursuant to paragraph R390.8.

Audit and Review Engagements for Clients that are Not Public Interest Entities and All Other Assurance Engagements Outside the Scope of Part 5

R390.12 The professional accountant/assurance practitioner shall request the external expert to provide in writing:

- (A) To the best of their knowledge and belief;
- (B) In relation to the entity at which the external expert is performing the work; and
- (C) From the beginning of the period covered by the audit, review or other assurance report until the completion of the external expert's work,

information about:

- (a) Any direct financial interest or material indirect financial interest in the entity held by the external expert, their immediate family, or the external expert's employing ~~organization~~organisation;
- (b) Any actual or potential conflict of interest the external expert, their immediate family or the external expert's employing ~~organization~~organisation might have in relation to the work the external expert is performing at the entity; and
- (c) Any previous or current engagements between the external expert or their employing ~~organization~~organisation and the entity.

R390.13 The ~~professional accountant~~assurance practitioner shall also consider requesting the external expert to provide in writing:

- (a) To the best of their knowledge and belief; and
- (b) From the beginning of the period covered by the audit, review or other assurance report until the completion of the external expert's work,

information about any additional interests, relationships or circumstances between the external expert, their immediate family or the external expert's employing ~~organization~~organisation and the entity at which the external expert is performing the work.

390.13 A1 In addition to the interests, relationships or circumstances in paragraph R390.13, paragraph R390.14 sets out other interests, relationships or circumstances between the external expert, their immediate family or the external expert's employing ~~organization~~organisation and the entity at which the external expert is performing the work.

390.13 A2 Factors that are relevant in determining whether to request information about any additional interests, relationships or circumstances from the external expert include:

- The scale of the external expert's practice.
- The range of services offered by the external expert.
- How long the external expert has been practicing.
- The complexity of the external expert's work.
- The impact of the external expert's work on the ~~professional accountant~~assurance practitioner's engagement.

For example, the larger the external expert's practice, the broader its range of services, or the longer it has been practicing, the greater the possibility that there might be additional interests, relationships or circumstances between the external expert or their employing ~~organization~~organisation and the entity.

Audit and Review Engagements for Clients that are Public Interest Entities

R390.14 The ~~professional accountant~~assurance practitioner shall request the external expert to provide in writing:

- (A) To the best of their knowledge and belief;

- (B) In relation to the entity at which the external expert is performing the work; and
- (C) From the beginning of the period covered by the audit or review report until the completion of the external expert's work,

information about:

- (a) Any direct financial interest or material indirect financial interest in the entity held by the external expert, their immediate family, or the external expert's employing ~~organization~~organisation;
- (b) Any loan, or guarantee of a loan, made to the entity by the external expert, their immediate family, or the external expert's employing ~~organization~~organisation, other than where the loan or guarantee is immaterial to the external expert, their immediate family or the external expert's employing ~~organization~~organisation, as applicable, and the entity;
- (c) Any loan, or guarantee of a loan, accepted by the external expert, their immediate family, or the external expert's employing ~~organization~~organisation from the entity if it is a bank or similar institution, other than where the loan or guarantee is made under normal lending procedures, terms and conditions;
- (d) Any loan, or guarantee of a loan, accepted by the external expert, their immediate family, or the external expert's employing ~~organization~~organisation from the entity if it is not a bank or similar institution, other than where the loan or guarantee is immaterial to the external expert, their immediate family or the external expert's employing ~~organization~~organisation, as applicable, and the entity;
- (e) Any close business relationship between the external expert, their immediate family, or the external expert's employing ~~organization~~organisation and the entity or its management, other than where the financial interest, if any, is immaterial and the business relationship is insignificant to the external expert, their immediate family or the external expert's employing ~~organization~~organisation, as applicable, and the entity or its management;
- (f) Any previous or current engagements between the external expert or their employing ~~organization~~organisation and the entity;
- (g) Any fee or contingent fee or dependency on fees or other types of remuneration due to or recently received by the external expert or their employing ~~organization~~organisation from the entity;
- (h) Any gifts or other benefits accepted by the external expert, their immediate family or the external expert's employing ~~organization~~organisation from the entity other than those that are trivial and inconsequential;
- (i) Any actual or potential litigation between the external expert or their employing ~~organization~~organisation and the entity;
- (j) Any position currently or previously held by the external expert as a director, officer or employee of the entity;
- (k) Any position currently or previously held by the external expert's immediate family or by management of the external expert's employing ~~organization~~organisation as a director or officer of the entity, or an employee in a position to exert significant influence over the preparation of the entity's financial or non-financial information on which the ~~professional accountant~~assurance practitioner will express an opinion or conclusion, or the records underlying such information;
- (l) Any previous public statements by the external expert or their employing ~~organization~~organisation which advocated for the entity;

- (m) The nature and extent of any interests and relationships between the controlling owners, if any, of the external expert's employing [organization/organisation](#) and the entity; and
- (n) Any actual or potential conflict of interest the external expert, their immediate family or the external expert's employing [organization/organisation](#) might have in relation to the work the external expert is performing at the entity; and

with respect to the length of the relationship of the external expert and their employing [organization/organisation](#) with the entity:

- (o) How long the association has been.

Considerations Relating to an External Expert's Team and Where the Client is Not the Entity at Which the External Expert is Performing the Work

All audit engagements, review engagements, and other assurance engagements outside the scope of Part 5

R390.15 Where the external expert uses a team to carry out the work, the [professional accountant/assurance practitioner](#) shall request the external expert to have all members of the external expert's team provide in writing the information set out in paragraphs R390.12 to R390.14, as applicable, in relation to the entity at which the external expert is performing the work.

R390.16 Where the [professional accountant/assurance practitioner](#)'s client is not the entity at which the external expert is performing the work, the [professional accountant/assurance practitioner](#) shall also request the external expert to provide in writing:

- (A) To the best of their knowledge and belief;
- (B) In relation to the client; and
- (C) From the beginning of the period covered by the audit, review or other assurance report until the completion of the external expert's work,

information about:

- (a) Any direct financial interest or material indirect financial interest in the client held by the external expert, their immediate family, or the external expert's employing [organization/organisation](#);
- (b) Any actual or potential conflict of interest the external expert, their immediate family or the external expert's employing [organization/organisation](#) might have with the client; and
- (c) Any previous or current engagements between the external expert or their employing [organization/organisation](#) and the client.

R390.17 The [professional accountant/assurance practitioner](#) shall also consider requesting the external expert to provide in writing:

- (a) To the best of their knowledge and belief; and
- (b) From the beginning of the period covered by the audit, review or other assurance report until the completion of the external expert's work,

information about any additional interests, relationships or circumstances between the external expert, their immediate family or the external expert's employing [organization/organisation](#) and the client.

390.17 A1 In addition to the interests, relationships or circumstances in paragraph R390.17, paragraph R390.14 sets out other interests, relationships or circumstances between the external expert, their immediate family or the external expert's employing [organization/organisation](#) and the client.

390.17 A2 Factors that are relevant in determining whether to request information about any additional interests, relationships or circumstances from the external expert include:

- The scale of the external expert's practice.
- The range of services offered by the external expert.
- How long the external expert has been practicing.
- Whether the client is a public interest entity.
- The nature of the relationship between the client and the entity at which the external expert is performing the work.
- The scale and complexity of the client's operations.
- The complexity of the external expert's work.
- The impact of the external expert's work on the [professional accountant/assurance practitioner's](#) engagement.

For example, the larger the external expert's practice, the broader its range of services, or the longer it has been practicing, the greater the possibility that there might be additional interests, relationships or circumstances between the external expert or their employing [organization/organisation](#) and the entity.

390.17 A3 Information about interests, relationships or circumstances between the external expert or their employing [organization/organisation](#) and the client might be obtained from [inquiry/enquiry](#) of the client, if the circumstances of the engagement permit disclosure of the use of the external expert to the client.

Potential Threats to the External Expert's Objectivity

390.18 A1 Self-interest, familiarity or intimidation threats to the external expert's objectivity might be created by the interests, relationships or circumstances disclosed pursuant to paragraphs R390.12 to R390.17, as applicable.

390.18 A2 Factors that are relevant in evaluating the level of such threats to the external expert's objectivity include, in addition to those set out in paragraph 390.8 A5:

- Whether the financial interest is direct or indirect, and whether such financial interest is material to the external expert, their immediate family, or the external expert's employing [organization/organisation](#), as applicable.
- Whether the financial interest allows the external expert, their immediate family, or the external expert's employing [organization/organisation](#), as applicable, to control or significantly influence the entity at which the external expert is performing the work.
- The materiality or significance of the close business relationship between the external expert, their immediate family or the external expert's employing [organization/organisation](#), as applicable, and the entity or its management.
- The significance of any fees due to or recently received by the external expert or their employing [organization/organisation](#) from the entity.
- The role of the individual within the external expert's team.
- The nature and value of the gifts or other benefits to the external expert, their immediate family or the external expert's employing [organization/organisation](#).
- The materiality or significance of the litigation and whether the litigation relates to prior work performed by the external expert at the entity.

- The length of time since the external expert left the entity as a director, officer or employee of the entity.
- The position in the entity held by the external expert's immediate family or the management of the external expert's employing ~~organization~~ organisation.
- The nature of any advocacy for the entity if the external expert or their employing ~~organization~~ organisation made any previous statement advocating for the entity.

390.18 A3 Examples of actions that might eliminate the threats to the external expert's objectivity include requesting the external expert to:

- End the close business relationship.
- Remove the individual concerned from the external expert's team.
- Decline the gifts or other benefits offered by the entity.

390.18 A4 Examples of actions that might be safeguards to address the threats to the external expert's objectivity include, in addition to those set out in paragraph 390.8 A6, requesting the external expert to:

- Dispose of enough of the financial interest so that the remaining interest is no longer material.
- Reduce the significance of the close business relationship.
- Structure the responsibilities of the individual concerned so that they do not deal with matters that are within the responsibility of the immediate family member who is serving as a director or officer of the entity, or an employee in a position to exert significant influence over the preparation of the entity's financial or non-financial information on which the ~~professional accountant~~ assurance practitioner will express an opinion or conclusion, or the records underlying such information.
- Returning the gifts or other benefits to the entity as soon as possible after they were accepted.

Consideration of New Information or Changes in Facts or Circumstances

All Professional Services

R390.19 The ~~professional accountant~~ assurance practitioner shall re-evaluate whether the external expert has the necessary competence, capabilities and objectivity for the ~~assurance practitioner~~ accountant's purpose when new information or changes in facts and circumstances arise.

Audit, Review and Other Assurance Engagements

R390.20 The ~~professional accountant~~ assurance practitioner shall re-evaluate whether the external expert has the necessary objectivity for ~~the accountant~~ the assurance practitioner's purpose when there are any changes communicated pursuant to paragraph R390.5(b)(ii) that might arise during the period covered by the audit, review or other assurance report through to the issuance of that report.

Concluding on the External Expert's Competence, Capabilities and Objectivity

All Professional Services

R390.21 The ~~professional accountant~~ assurance practitioner shall not use the work of the external expert if ~~the accountant~~ the assurance practitioner:

- (a) Is unable to determine whether the external expert has the necessary competence or capabilities, or is objective;

- (b) Determines that the external expert does not have the necessary competence or capabilities for ~~the accountant~~the assurance practitioner's purpose; or
- (c) Determines that there are threats to the external expert's objectivity that cannot be eliminated or reduced to an acceptable level.

390.21 A1 Circumstances in which ~~a professional accountant~~an assurance practitioner would be unable to determine whether the external expert has the necessary competence or capabilities, or is objective, include where:

- The external expert is unable to provide any of the information requested in paragraphs R390.12 to R390.17 because of a confidentiality restriction in law or regulation.
- In relation to specific information requested in paragraphs R390.12 to R390.17 concerning the external expert's immediate family member or employing ~~organization~~organisation, the external expert is unable to obtain their consent to such disclosure.

390.21 A2 If ~~a professional accountant~~an assurance practitioner uses the work of such external expert, this creates threats to ~~the accountant~~the assurance practitioner's compliance with the principles of integrity, objectivity and professional competence and due care that cannot be eliminated or reduced to an acceptable level by the application of safeguards.

Potential Threats Arising from Using the Work of an External Expert

All Professional Services

390.22 A1 Threats to compliance with the fundamental principles might still be created from using the work of an external expert even if ~~a professional accountant~~an assurance practitioner has satisfactorily concluded that the external expert has the necessary competence, capabilities and objectivity for ~~the accountant~~the assurance practitioner's purpose.

Identifying Threats

390.23 A1 Examples of facts and circumstances that might create threats to ~~a professional accountant~~an assurance practitioner's compliance with the fundamental principles when using an external expert's work include:

- (a) Self-interest threats
 - ~~A professional accountant~~An assurance practitioner has insufficient expertise to understand and explain the external expert's conclusions and findings.
 - ~~A professional accountant~~An assurance practitioner has undue influence from, or undue reliance on, the external expert or multiple external experts when providing a professional service.
 - ~~A professional accountant~~An assurance practitioner has insufficient time or resources to evaluate the external expert's work.
- (b) Self-review threats
 - ~~A professional accountant~~An assurance practitioner uses the work of an external expert who relies on previous ~~judgment~~judgements made by ~~the accountant~~the assurance practitioner and provided to the external expert for the purposes of their work.

(c) Advocacy threats

- ~~A professional accountant~~An assurance practitioner promotes the use of an external expert who has known bias towards conclusions potentially advantaging or disadvantaging the client.

(d) Familiarity threats

- ~~A professional accountant~~An assurance practitioner has a close personal relationship with the external expert.

(e) Intimidation threats

- ~~A professional accountant~~An assurance practitioner feels pressure to defer to the external expert's opinion due to the external expert's perceived authority.
- ~~A professional accountant~~An assurance practitioner feels pressure to use the work of a particular external expert in order to meet internal or external targets and expectations.

Evaluating Threats

390.24 A1 Factors that are relevant in evaluating the level of such threats include:

- The scope and purpose of the external expert's work.
- The impact of the external expert's work on the ~~professional accountant~~assurance practitioner's engagement.
- The nature of the professional service for which the external expert's work is intended to be used.
- The ~~professional accountant~~assurance practitioner's oversight relating to the use of the external expert and the external expert's work.
- The appropriateness of, and transparency over, the data, assumptions and other inputs and methods used by the external expert.
- The ~~professional accountant~~assurance practitioner's ability to understand and explain the external expert's work and its appropriateness for the intended purpose.
- Whether the external expert's work is subject to technical performance standards or other professional or industry generally accepted practices, or law or regulation.
- Whether the external expert's work, if it were to be performed by two or more parties, is not likely to be materially different.
- The consistency of the external expert's work, including the external expert's conclusions or findings, with other information.
- The availability of other evidence, including peer-reviewed academic research, to support the external expert's approach.
- Whether there is pressure being exerted by the ~~professional accountant~~assurance practitioner's firm to accept the external expert's conclusions or findings due to the time or cost spent by the external expert in performing the work.

Addressing Threats

390.25 A1 An example of an action that might eliminate a familiarity threat is identifying a different external expert to use.

390.25 A2 Examples of actions that might be safeguards to address threats include:

- Consulting with qualified personnel, or a professional outside the ~~professional accountant~~ assurance practitioner's firm, who have the necessary expertise to evaluate the external expert's work, obtaining additional input, or challenging the appropriateness of the external expert's work for the intended purpose.
- Using another external expert to reperform the external expert's work.
- Agreeing with the client additional time or resources to complete the engagement.

Other Matters

External Experts in Emerging Fields or Areas

390.26 A1 Expertise in emerging fields or areas might evolve depending on how laws, regulations and generally accepted practices develop. Emerging fields might also involve multiple areas of expertise. There might therefore be limited availability of external experts in emerging fields or areas.

390.26 A2 Information relating to some of the factors relevant to evaluating the competence of an external expert in paragraph 390.6 A2 might not be available in an emerging field or area. For example, there might not be public recognition of the external expert, professional standards might not have been developed, or professional bodies might not have been established in the emerging field. In such circumstances, a factor that might assist the ~~professional accountant~~ assurance practitioner in evaluating an external expert's competence is the external expert's experience in a similar field to the emerging field, or in an established field, that provides a reasonable basis for the external expert's work in the emerging field.

Communicating with Management and Those Charged with Governance When Using the Work of an External Expert

390.27 A1 Where appropriate, the ~~professional accountant~~ assurance practitioner is encouraged to communicate with management and those charged with governance:

- The purpose of using an external expert and the scope of the external expert's work.
- The respective roles and responsibilities of ~~the accountant~~ the assurance practitioner and the external expert in the performance of the professional service.
- Any threats to ~~the accountant~~ the assurance practitioner's compliance with the fundamental principles created by using the external expert's work and how they have been addressed.

Documentation

R390.28 The ~~professional accountant~~ assurance practitioner shall obtain the information set out in paragraphs R390.12 to R390.17, as applicable, in writing from the external expert.

390.29 A1 The ~~professional accountant~~ assurance practitioner is encouraged to document:

- The steps taken by ~~the accountant~~ the assurance practitioner to evaluate the external expert's competence, capabilities and objectivity, and the resulting conclusions.
- Any significant threats identified by ~~the accountant~~ the assurance practitioner in using the external expert's work and the actions taken to address the threats.
- The results of any significant discussions with the external expert.

SECTION 5390 (NEW) (strike through and underlines show changes from the IESBA's drafting for information only. The track changes will not be shown in the ED, the whole text will be underlined)

Note: Section 5390 forms an integral part of the [Proposed] International Ethics Standards for Sustainability Assurance™ (including International Independence Standards™) (New Zealand) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting; and should be read in conjunction with that final pronouncement.

USING THE WORK OF AN EXTERNAL EXPERT

Introduction

- 5390.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5390.2 A sustainability assurance practitioner might use the work of an external expert in the performance of a professional service. Using the work of such an external expert might create threats to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional competence and due care.
- 5390.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to using the work of an external expert. Other professional standards might address the competence, capabilities and objectivity of an external expert as factors that significantly affect whether the work of the external expert will be adequate for the sustainability assurance practitioner's purposes.

Requirements and Application Material

General

- 5390.4 A1 A self-interest threat to compliance with the principles of integrity and professional competence and due care is created if a sustainability assurance practitioner performs a professional service for which the practitioner has insufficient expertise.
- 5390.4 A2 An action that might be a safeguard to address such a threat is to use the work of an external expert for the professional service who has the competence, capabilities and objectivity to deliver the work needed for such service.
- 5390.4 A3 An external expert might be used to undertake specific work to support a professional service provided by a sustainability assurance practitioner. Such work can be in a field that is well-established or emerging. Examples of such work include:
- The valuation of assets such as complex financial instruments, land and buildings, plant and machinery, ~~jewelry~~jewellery, works of art, antiques, intangible assets, assets acquired in business combinations, and assets that may have been impaired.
 - The valuation of liabilities such as those assumed in business combinations, those from actual or threatened litigation, environmental liabilities, complex financial instruments, site clean-up liabilities, and those associated with insurance contracts or employee benefit plans.
 - The calculation of greenhouse gas emissions.
 - The measurement of pollutants emitted to air, water and soil.

- The assessment of forward-looking information about the decarbonization plans of an entity.
- The assessment of the application of offsetting mechanisms for an entity, such as for carbon or biodiversity.
- The valuation of products and materials designed along principles for a sustainable economy.
- The estimation of oil and gas reserves.
- The interpretation of contracts, laws and regulations, including tax and labor laws and regulations.
- The assessment and evaluation of IT systems, including those related to cybersecurity.
- The accounting for specific matters such as financial instruments or carbon credits.
- Consideration of the methodologies or classification systems used to measure a product's impact on the environment.
- Assessment or measurement of impacts of activities, products or services on the environment, economy and social or cultural conditions.

5390.4 A4 This section does not apply to:

- (a) The use of the work of an expert employed or engaged by the sustainability assurance client to assist the client in preparing the financial or non-financial information. Such work is deemed to be information provided by management;
- (b) The use of the work of individuals or organizations that are engaged by the sustainability assurance practitioner and are under the practitioner's direction, supervision and review, for example, subcontractors; and
- (c) The use of information provided by individuals or organizations that are external information sources for general use. Examples of those information sources include those that provide industry or other benchmarking data or studies, such as information about employment statistics including hours worked and compensation per week by geographical area, real estate prices, carbon emissions by vehicle type, mortality tables, or other datasets for general use.

5390.4 A5 This section does not address a sustainability assurance practitioner's evaluation of the adequacy of an external expert's work for purposes of a professional service undertaken by the practitioner, and the implications for the engagement if the practitioner determines that such work is not adequate. Such implications might be addressed in other professional standards.

Agreeing the Terms of Engagement with an External Expert

All Professional Services

R5390.5 If the sustainability assurance practitioner has determined to use an external expert for a professional service and has identified an external expert for such purpose, the practitioner shall, to the extent not otherwise addressed by law, regulation or other professional standards, agree the terms of engagement with the external expert, including:

- (a) The nature, scope and objectives of the work to be performed by the external expert; and
- (b) In the context of sustainability or other assurance engagements for the same sustainability assurance client:
 - (i) The provision of information in writing for purposes of assisting the practitioner's evaluation of the external expert's objectivity; and

- (ii) A commitment from the external expert to communicate any changes to the information provided during the period covered by the sustainability assurance or other assurance report for the same sustainability assurance client through to the issuance of that report.

5390.5 A1 In agreeing the terms of engagement, matters that the sustainability assurance practitioner might discuss with the external expert include:

- The intended use and timing of the external expert's work.
- The external expert's planned approach to the work.
- Expectations regarding:
 - The confidentiality of the external expert's work and the inputs to that work.
 - The information to be provided by the external expert and the nature of such information.
 - The content and format of the external expert's completed work, including any assumptions made and limitations to that work.
 - The fees for the external expert's work.
 - The external expert's communication of any non-compliance or suspected non-compliance with laws and regulations committed by the sustainability assurance client, or by those charged with governance, management or others working for or under the direction of the client, of which the external expert becomes aware when performing the work.

5390.5 A2 A self-interest, self-review, familiarity or advocacy threat to compliance with the principles of integrity, objectivity and professional competence and due care might be created if a sustainability assurance practitioner uses an external expert who does not have the necessary competence, capabilities or objectivity to deliver the work needed for the particular professional service.

Evaluating the External Expert's Competence, Capabilities, and Objectivity

All Professional Services

R5390.6 The sustainability assurance practitioner shall evaluate whether the external expert has the necessary competence for the practitioner's purpose.

5390.6 A1 Competence relates to the nature and level of expertise of the external expert.

5390.6 A2 Factors that are relevant in evaluating whether the external expert has the necessary competence include:

- Whether the external expert's credentials, education, training, experience and reputation are relevant to, or consistent with, the nature of the work to be performed.
- Whether the external expert belongs to a relevant professional body or is subject to oversight by a regulatory body or other authority, and, if so, whether the external expert is in good standing.
- Whether any disciplinary actions have been published by a regulatory body or other authority relating to the external expert's competence.
- Whether the external expert's work is subject to legal and regulatory requirements or professional standards issued by a recognised body, or follows generally accepted principles or practices, in the external expert's field or area of expertise.
- Whether the external expert can explain their work, including the inputs, assumptions and methodologies used.

- Whether the external expert has a history of performing similar work.

R5390.7 The sustainability assurance practitioner shall evaluate whether the external expert has the necessary capabilities for the practitioner's purpose.

5390.7A1 Capabilities relates to the ability of the external expert to exercise their competence in the circumstances of the professional service.

5390.7 A2 Factors that are relevant in evaluating whether the external expert has the necessary capabilities include:

- The resources available to the external expert.
- Whether the external expert has sufficient time to perform the work.

R5390.8 The sustainability assurance practitioner shall evaluate whether the external expert has the necessary objectivity for the practitioner's purpose.

5390.8 A1 Objectivity relates to the possible effects that bias, conflict of interest, or the undue influence of, or undue reliance on, others might have on the professional or business ~~judgment~~judgement of the external expert.

5390.8 A2 Factors that are relevant in identifying threats to the objectivity of the external expert for the period during which the external expert is performing the work include:

- Whether the external expert or their employing ~~organization~~organisation has an actual or potential conflict of interest in relation to the work the external expert is performing at the entity.
- Whether the sustainability assurance practitioner is aware of any potential bias that might affect the external expert's work.
- Whether the external expert is charging a contingent fee, and if so, the basis for such fee.
- Whether the external expert will evaluate or rely on any previous ~~judgment~~judgements made or activities performed by the external expert or their employing ~~organization~~organisation in relation to the subject matter of the external expert's work.

5390.8 A3 The external expert's employing ~~organization~~organisation is the entity that directly employs the expert, regardless of the legal form of the employment, and does not extend to other entities that might control, or are otherwise related to, the employing ~~organization~~organisation.

5390.8 A4 Examples of previous ~~judgment~~judgements made or activities performed by an external expert or their employing ~~organization~~organisation that might create a self-review threat to the external expert's objectivity include:

- Having advised the entity on the matter for which the external expert is performing the work.
- Having produced data or other information, or having designed, developed, implemented, operated, maintained, monitored, updated or upgraded an IT system, for the entity which is then used by the external expert in performing the work or is the subject of that work.

5390.8 A5 Factors that are relevant in evaluating the level of such threats to the external expert's objectivity include:

- The existence of conditions, policies and procedures established by the external expert's profession, legislation, regulation, or the external expert's employing ~~organization~~organisation,

including whether the external expert is subject to ethics standards issued by a body responsible for issuing such standards in the external expert's field of expertise.

- The nature and scope of the external expert's work.
- The existence and adequacy of any quality management system employed by the external expert.

5390.8 A6 Examples of actions that might be safeguards to address threats to an external expert's objectivity include:

- Consulting with qualified personnel, or a professional outside the sustainability assurance practitioner's firm, who have the necessary expertise to evaluate the external expert's work for the intended purpose.
- Requesting the external expert to take steps to address a conflict of interest, for example, implementing measures to segregate the work from such conflict of interest.
- Restructuring or reassigning the part of the external expert's work giving rise to the threat to another external expert.

Sources of Information

5390.9 A1 Information about the external expert's competence, capabilities and objectivity might be obtained from various sources, including:

- Personal association or experience with previous work undertaken by the external expert.
- [Inquiry/Enquiry](#) of others within or outside the sustainability assurance practitioner's firm who are familiar with the external expert's work.
- Discussion with the external expert about their background, including their field of expertise and business activities.
- [Inquiry/Enquiry](#) of the external expert's professional body or industry association.
- Articles, papers or books written by the external expert and published by a [recognizised](#) publisher or in a ~~recognized~~[recognised](#) journal or other medium.
- Published records, such as legal proceedings involving the external expert.
- [Inquiry/Enquiry](#) of the sustainability assurance client and, if different, the entity at which the external expert is performing the work regarding any interests and relationships between the external expert and the client or the entity.
- The system of quality management of the sustainability assurance practitioner's firm.

Additional Considerations when Evaluating Competence, Capabilities and Objectivity

5390.10 A1 Evaluating whether an external expert has the necessary competence, capabilities and objectivity for the sustainability assurance practitioner's purpose involves exercising professional [judgment/judgement](#) and using the reasonable and informed third party test.

5390.10 A2 A sustainability assurance practitioner might face pressure to breach the fundamental principles if the practitioner encounters difficulties in concluding, or is unable to conclude, that the external expert has the necessary competence, capabilities and objectivity for the practitioner's purpose when the external expert has already performed a significant portion of their work. In such circumstances, Section 270 is relevant in considering how to address such pressure.

Additional Objectivity Considerations for Sustainability or Other Assurance Engagements for the Same Sustainability Assurance Client

5390.11 A1 Stakeholders have heightened expectations regarding the objectivity of an external expert whose work is used in a sustainability or other assurance engagement for the same sustainability assurance client. Therefore, paragraphs R5390.12 to R5390.19 set out further actions in evaluating the objectivity of an external expert in such engagement pursuant to paragraph R5390.8.

Sustainability or Other Assurance Engagements for the Same Sustainability Assurance Client that is Not a Public Interest Entity

R5390.12 The sustainability assurance practitioner shall request the external expert to provide in writing:

- (A) To the best of their knowledge and belief;
- (B) In relation to the entity at which the external expert is performing the work; and
- (C) From the beginning of the period covered by the assurance report until the completion of the external expert's work,

information about:

- (a) Any direct financial interest or material indirect financial interest in the entity held by the external expert, their immediate family, or the external expert's employing ~~organization~~organisation;
- (b) Any actual or potential conflict of interest the external expert, their immediate family or the external expert's employing ~~organization~~organisation might have in relation to the work the external expert is performing at the entity; and
- (c) Any previous or current engagements between the external expert or their employing ~~organization~~organisation and the entity.

R5390.13 The sustainability assurance practitioner shall also consider requesting the external expert to provide in writing:

- (a) To the best of their knowledge and belief; and
- (b) From the beginning of the period covered by the assurance report until the completion of the external expert's work,

information about any additional interests, relationships or circumstances between the external expert, their immediate family or the external expert's employing ~~organization~~organisation and the entity at which the external expert is performing the work.

5390.13 A1 In addition to the interests, relationships or circumstances in paragraph R5390.13, paragraph R5390.14 sets out other interests, relationships or circumstances between the external expert, their immediate family or the external expert's employing ~~organization~~organisation and the entity at which the external expert is performing the work.

5390.13 A2 Factors that are relevant in determining whether to request information about any additional interests, relationships or circumstances from the external expert include:

- The scale of the external expert's practice.
- The range of services offered by the external expert.
- How long the external expert has been practicing.

- The complexity of the external expert's work.
- The impact of the external expert's work on the sustainability assurance practitioner's engagement.

For example, the larger the external expert's practice, the broader its range of services, or the longer it has been practicing, the greater the possibility that there might be additional interests, relationships or circumstances between the external expert or their employing ~~organization~~organisation and the entity.

Sustainability or Other Assurance Engagements for the Same Sustainability Assurance Client that is a Public Interest Entity

R5390.14 The sustainability assurance practitioner shall request the external expert to provide in writing:

- (A) To the best of their knowledge and belief;
- (B) In relation to the entity at which the external expert is performing the work; and
- (C) From the beginning of period covered by the assurance report until the completion of the external expert's work,

information about:

- (a) Any direct financial interest or material indirect financial interest in the entity held by the external expert, their immediate family, or the external expert's employing ~~organization~~organisation;
- (b) Any loan, or guarantee of a loan, made to the entity by the external expert, their immediate family, or the external expert's employing ~~organization~~organisation, other than where the loan or guarantee is immaterial to the external expert, their immediate family or the external expert's employing ~~organization~~organisation, as applicable, and the entity;
- (c) Any loan, or guarantee of a loan, accepted by the external expert, their immediate family, or the external expert's employing ~~organization~~organisation from the entity if it is a bank or similar institution, other than where the loan or guarantee is made under normal lending procedures, terms and conditions;
- (d) Any loan, or guarantee of a loan, accepted by the external expert, their immediate family, or the external expert's employing ~~organization~~organisation from the entity if it is not a bank or similar institution, other than where the loan or guarantee is immaterial to the external expert, their immediate family or the external expert's employing ~~organization~~organisation, as applicable, and the entity;
- (e) Any close business relationship between the external expert, their immediate family, or the external expert's employing ~~organization~~organisation and the entity or its management, other than where the financial interest, if any, is immaterial and the business relationship is insignificant to the external expert, their immediate family or the external expert's employing ~~organization~~organisation, as applicable, and the entity or its management;
- (f) Any previous or current engagements between the external expert or their employing ~~organization~~organisation and the entity;
- (g) Any fee or contingent fee or dependency on fees or other types of remuneration due to or recently received by the external expert or their employing ~~organization~~organisation from the entity;
- (h) Any gifts or other benefits accepted by the external expert, their immediate family or the external expert's employing ~~organization~~organisation from the entity other than those that are trivial and inconsequential;

- (i) Any actual or potential litigation between the external expert or their employing ~~organization~~organisation and the entity;
- (j) Any position currently or previously held by the external expert as a director, officer or employee of the entity;
- (k) Any position currently or previously held by the external expert's immediate family or by management of the external expert's employing ~~organization~~organisation as a director or officer of the entity, or an employee in a position to exert significant influence over the preparation of the entity's financial or non-financial information on which the sustainability assurance practitioner will express an opinion or conclusion, or the records underlying such information.
- (l) Any previous public statements by the external expert or their employing ~~organization~~organisation which advocated for the entity;
- (m) The nature and extent of any interests and relationships between the controlling owners, if any, of the external expert's employing ~~organization~~organisation and the entity and
- (n) Any actual or potential conflict of interest the external expert, their immediate family or the external expert's employing ~~organization~~organisation might have in relation to the work the external expert is performing at the entity; and

with respect to the length of the relationship of the external expert and their employing ~~organization~~organisation with the entity:

- (o) How long the association has been.

Considerations Relating to an External Expert's Team and Where the Client is Not the Entity at Which the External Expert is Performing the Work

All sustainability or other assurance engagements for the same sustainability assurance client

R5390.15 Where the external expert uses a team to carry out the work, the sustainability assurance practitioner shall request the external expert to have all members of the external expert's team provide in writing the information set out in paragraphs R5390.12 to R5390.14, as applicable, in relation to the entity at which the external expert is performing the work.

R5390.16 Where the sustainability assurance practitioner's client is not the entity at which the external expert is performing the work, the sustainability assurance practitioner shall also request the external expert to provide in writing:

- (A) To the best of their knowledge and belief;
- (B) In relation to the client; and
- (C) From the beginning of the period covered by the assurance report until the completion of the external expert's work,

information about:

- (a) Any direct financial interest or material indirect financial interest in the sustainability assurance client held by the external expert, their immediate family, or the external expert's employing ~~organization~~organisation;
- (b) Any actual or potential conflict of interest the external expert, their immediate family or the external expert's employing ~~organization~~organisation might have with the sustainability assurance client; and

- (c) Any previous or current engagements between the external expert or their employing ~~organization~~organisation and the client.

R5390.17 The sustainability assurance practitioner shall also consider requesting the external expert to provide in writing:

- (a) To the best of their knowledge and belief; and
- (b) From the beginning of the period covered by the assurance report until the completion of the external expert's work,

information about any additional interests, relationships or circumstances between the external expert, their immediate family or the external expert's employing ~~organization~~organisation and the client.

5390.17 A1 In addition to the interests, relationships or circumstances in paragraph R5390.17, paragraph R5390.14 sets out other interests, relationships or circumstances between the external expert, their immediate family or the external expert's employing ~~organization~~organisation and the client.

5390.17 A2 Factors that are relevant in determining whether to request information about any additional interests, relationships or circumstances from the external expert include:

- The scale of the external expert's practice.
- The range of services offered by the external expert.
- How long the external expert has been practicing.
- Whether the client is a public interest entity.
- The nature of the relationship between the client and the entity at which the external expert is performing the work.
- The scale and complexity of the client's operations.
- The complexity of the external expert's work.
- The impact of the external expert's work on the sustainability assurance practitioner's engagement.

For example, the larger the external expert's practice, the broader its range of services, or the longer it has been practicing, the greater the possibility that there might be additional interests, relationships or circumstances between the external expert or their employing ~~organization~~organisation and the entity.

5390.17 A3 Information about interests, relationships or circumstances between the external expert or their employing ~~organization~~organisation and the sustainability assurance client might be obtained from ~~inquiry~~enquiry of the client, if the circumstances of the engagement permit disclosure of the use of the external expert to the client.

Potential Threats to the External Expert's Objectivity

5390.18 A1 Self-interest, familiarity or intimidation threats to the external expert's objectivity might be created by the interests, relationships or circumstances disclosed pursuant to paragraphs R5390.12 to R5390.17, as applicable.

5390.18 A2 Factors that are relevant in evaluating the level of such threats to the external expert's objectivity include, in addition to those set out in paragraph 5390.8 A5:

- Whether the financial interest is direct or indirect, and whether such financial interest is material to the external expert, their immediate family, or the external expert's employing ~~organization~~organisation, as applicable.
- Whether the financial interest allows the external expert, their immediate family, or the external expert's employing ~~organization~~organisation, as applicable, to control or significantly influence the entity at which the external expert is performing the work.
- The materiality or significance of the close business relationship between the external expert, their immediate family or the external expert's employing ~~organization~~organisation, as applicable, and the entity or its management.
- The significance of any fees due to or recently received by the external expert or their employing ~~organization~~organisation from the entity.
- The role of the individual within the external expert's team.
- The nature and value of the gifts or other benefits to the external expert, their immediate family or the external expert's employing ~~organization~~organisation.
- The materiality or significance of the litigation and whether the litigation relates to prior work performed by the external expert at the entity.
- The length of time since the external expert left the entity as a director, officer or employee of the entity.
- The position in the entity held by the external expert's immediate family or the management of the external expert's employing ~~organization~~organisation.
- The nature of any advocacy for the entity if the external expert or their employing ~~organization~~organisation made any previous statement advocating for the entity.

5390.18 A3 Examples of actions that might eliminate the threats to the external expert's objectivity include requesting the external expert to:

- End the close business relationship.
- Remove the individual concerned from the external expert's team.
- Decline the gifts or other benefits offered by the entity.

5390.18 A4 Examples of actions that might be safeguards to address the threats to the external expert's objectivity include, in addition to those set out in paragraph 5390.8 A6, requesting the external expert to:

- Dispose of enough of the financial interest so that the remaining interest is no longer material.
- Reduce the significance of the close business relationship.
- Structure the responsibilities of the individual concerned so that they do not deal with matters that are within the responsibility of the immediate family member who is serving as a director or officer of the entity, or an employee in a position to exert significant influence over the preparation of the entity's financial or non-financial information on which the sustainability assurance practitioner will express an opinion or conclusion, or the records underlying such information.
- Returning the gifts or other benefits to the entity as soon as possible after they were accepted.

Consideration of New Information or Changes in Facts or Circumstances

All Professional Services

R5390.19 The sustainability assurance practitioner shall re-evaluate whether the external expert has the necessary competence, capabilities and objectivity for the practitioner's purpose when new information or changes in facts and circumstances arise.

R5390.20 The sustainability assurance practitioner shall re-evaluate whether the external expert has the necessary objectivity for the practitioner's purpose when there are any changes communicated pursuant to paragraph R5390.5(b)(ii) that might arise during the period covered by the assurance report through to the issuance of that report.

Concluding on the External Expert's Competence, Capabilities and Objectivity

All Professional Services

R5390.21 The sustainability assurance practitioner shall not use the work of the external expert if the practitioner:

- (a) Is unable to determine whether the external expert has the necessary competence or capabilities, or is objective;
- (b) Determines that the external expert does not have the necessary competence, or capabilities for the practitioner's purpose; or
- (c) Determines that there are threats to the external expert's objectivity that cannot be eliminated or reduced to an acceptable level.

5390.21 A1 Circumstances in which a sustainability assurance practitioner would be unable to determine whether the external expert has the necessary competence or capabilities, or is objective, include where:

- The external expert is unable to provide any of the information requested in paragraphs R5390.12 to R5390.17 because of a confidentiality restriction in law or regulation.
- In relation to specific information requested in paragraphs R5390.12 to R5390.17 concerning the external expert's immediate family member or employing ~~organization~~ organisation, the external expert is unable to obtain their consent to such disclosure.

390.21 A2 If a sustainability assurance practitioner uses the work of such external expert, this creates threats to the practitioner's compliance with the principles of integrity, objectivity and professional competence and due care that cannot be eliminated or reduced to an acceptable level by the application of safeguards.

Potential Threats Arising from Using the Work of an External Expert

All Professional Services

5390.22 A1 Threats to compliance with the fundamental principles might still be created from using the work of an external expert even if a sustainability assurance practitioner has satisfactorily concluded that the external expert has the necessary competence, capabilities and objectivity for the practitioner's purpose.

Identifying Threats

5390.23 A1 Examples of facts and circumstances that might create threats to a sustainability assurance practitioner's compliance with the fundamental principles when using an external expert's work include:

- (a) Self-interest threats
 - A sustainability assurance practitioner has insufficient expertise to understand and explain the external expert's conclusions and findings.

- A sustainability assurance practitioner has undue influence from, or undue reliance on, the external expert or multiple external experts when providing a professional service.
 - A sustainability assurance practitioner has insufficient time or resources to evaluate the external expert's work.
- (b) Self-review threats
- A sustainability assurance practitioner uses the work of an external expert who relies on previous ~~judgment~~judgements made by the practitioner and provided to the external expert for the purposes of their work.
- (c) Advocacy threats
- A sustainability assurance practitioner promotes the use of an external expert who has known bias towards conclusions potentially advantaging or disadvantaging the sustainability assurance client.
- (d) Familiarity threats
- A sustainability assurance practitioner has a close personal relationship with the external expert.
- (e) Intimidation threats
- A sustainability assurance practitioner feels pressure to defer to the external expert's opinion due to the external expert's perceived authority.
 - A sustainability assurance practitioner feels pressure to use the work of a particular external expert in order to meet internal or external targets and expectations.

Evaluating Threats

5390.24 A1 Factors that are relevant in evaluating the level of such threats include:

- The scope and purpose of the external expert's work.
- The impact of the external expert's work on the sustainability assurance practitioner's engagement.
- The nature of the professional service for which the external expert's work is intended to be used.
- The sustainability assurance practitioner's oversight relating to the use of the external expert and the external expert's work.
- The appropriateness of, and transparency over, the data, assumptions and other inputs and methods used by the external expert.
- The sustainability assurance practitioner's ability to understand and explain the external expert's work and its appropriateness for the intended purpose.
- Whether the external expert's work is subject to technical performance standards or other professional or industry generally accepted practices, or law or regulation.
- Whether the external expert's work, if it were to be performed by two or more parties, is not likely to be materially different.
- The consistency of the external expert's work, including the external expert's conclusions or findings, with other information.

- The availability of other evidence, including peer-reviewed academic research, to support the external expert's approach.
- Whether there is pressure being exerted by the sustainability assurance practitioner's firm to accept the external expert's conclusions or findings due to the time or cost spent by the external expert in performing the work.

Addressing Threats

5390.25 A1 An example of an action that might eliminate a familiarity threat is identifying a different external expert to use.

5390.25 A2 Examples of actions that might be safeguards to address threats include:

- Consulting with qualified personnel, or a professional outside the sustainability assurance practitioner's firm, who have the necessary expertise to evaluate the external expert's work, obtaining additional input, or challenging the appropriateness of the external expert's work for the intended purpose.
- Using another external expert to reperform the external expert's work.
- Agreeing with the sustainability assurance client additional time or resources to complete the engagement.

Other Matters

External Experts in Emerging Fields or Areas

5390.26 A1 Expertise in emerging fields or areas might evolve depending on how laws, regulations and generally accepted practices develop. Emerging fields might also involve multiple areas of expertise. There might therefore be limited availability of external experts in emerging fields or areas.

5390.26 A2 Information relating to some of the factors relevant to evaluating the competence of an external expert in paragraph 5390.6 A2 might not be available in an emerging field or area. For example, there might not be public recognition of the external expert, professional standards might not have been developed, or professional bodies might not have been established in the emerging field. In such circumstances, a factor that might assist the sustainability assurance practitioner in evaluating an external expert's competence is the external expert's experience in a similar field to the emerging field, or in an established field, that provides a reasonable basis for the external expert's work in the emerging field.

Communicating with Management and Those Charged with Governance When Using the Work of an External Expert

5390.27 A1 Where appropriate, the sustainability assurance practitioner is encouraged to communicate with management and those charged with governance:

- The purpose of using an external expert and the scope of the external expert's work.
- The respective roles and responsibilities of the practitioner and the external expert in the performance of the professional service.
- Any threats to the practitioner's compliance with the fundamental principles created by using the external expert's work and how they have been addressed.

Documentation

R5390.28 The sustainability assurance practitioner shall obtain the information set out in paragraphs R5390.12 to R5390.17, as applicable, in writing from the external expert.

5390.29 A1 The sustainability assurance practitioner is encouraged to document:

- The steps taken by the practitioner to evaluate the external expert's competence, capabilities and objectivity, and the resulting conclusions.
- Any significant threats identified by the practitioner in using the external expert's work and the actions taken to address the threats.
- The results of any significant discussions with the external expert.

GLOSSARY

Note: The Glossary forms an integral part of the [proposed] International Ethics Standards for Sustainability Assurance—(including International Independence Standards) (New Zealand) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting; ~~and should be read in conjunction with that final pronouncement.~~

NEW DEFINITIONS (strike through and underlines show changes from the IESBA’s drafting for information only. The track changes will not be shown in the ED, the whole text will be underlined)

Expert	An individual possessing expertise that is outside the <u>professional accountant</u> assurance practitioner ’s or sustainability assurance practitioner’s competence. Where appropriate, the term also refers to the individual’s organization <u>organisation</u> .
Expertise	Skills, knowledge and experience in a particular field.

...

REVISED DEFINITIONS (MARK UP FROM EXTANT) (strike through and underlines show changes to extant PES 1)

External Expert	<p><u>An expert engaged by an assurance practitioner</u> or by, assurance practitioner’s firm, or by a sustainability assurance practitioner.</p> <p><u>In the context of audit engagements, A</u>an expert<u>individual</u> (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organization possessing <u>expertise skills, knowledge and experience</u> in a field other than accounting or auditing, whose work in that field is used to assist the professional accountant<u>assurance practitioner</u> in obtaining sufficient appropriate <u>audit</u> evidence.</p> <p><u>In the context of other assurance engagements, including sustainability assurance engagements, A</u>an expert<u>individual</u> (who is not <u>an engagement leader</u>, a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organization possessing <u>expertise skills, knowledge and experience</u> in a field other than assurance accounting or auditing, whose work in that field is used to assist the professional accountant<u>assurance practitioner or sustainability assurance practitioner</u> in obtaining sufficient appropriate evidence.</p> <p><u>In the context of audit and other assurance engagements, external experts are not members of the engagement team, audit team, review team, assurance team, or sustainability assurance team.</u></p> <p><u>Sections 290, 390 and 5390 set out the requirements and application material addressing the use of the work of an external expert.</u></p>
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CONSEQUENTIAL AMENDMENTS (MARK-UP FROM EXTANT PES 1) (strike through and underlines show changes to extant PES 1)

PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

SECTION 120

THE CONCEPTUAL FRAMEWORK

...

Requirements and Application Material

...

120.5 A5 Professional judgement is required when the assurance practitioner applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances. In making this determination, the assurance practitioner might consider matters such as whether:

- The assurance practitioner's expertise ~~and experience are~~ is sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise ~~or experience~~.
- The assurance practitioner's own preconception or bias might be affecting the assurance practitioner's exercise of professional judgement.

...

PART 2 - ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM

SECTION 230

ACTING WITH SUFFICIENT EXPERTISE

...

Requirements and Application Material

...

R230.3 An assurance practitioner shall not intentionally mislead an employing organisation as to the level of expertise ~~or experience~~ possessed.

...

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 600

PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT CLIENT

Introduction

...

600.2 Firms and network firms might provide a range of non-assurance services to their audit clients, consistent with their [skills-and](#) expertise. Providing non-assurance services to audit clients might create threats to compliance with the fundamental principles and threats to independence.

...

PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

SECTION 950

PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE CLIENTS

Introduction

...

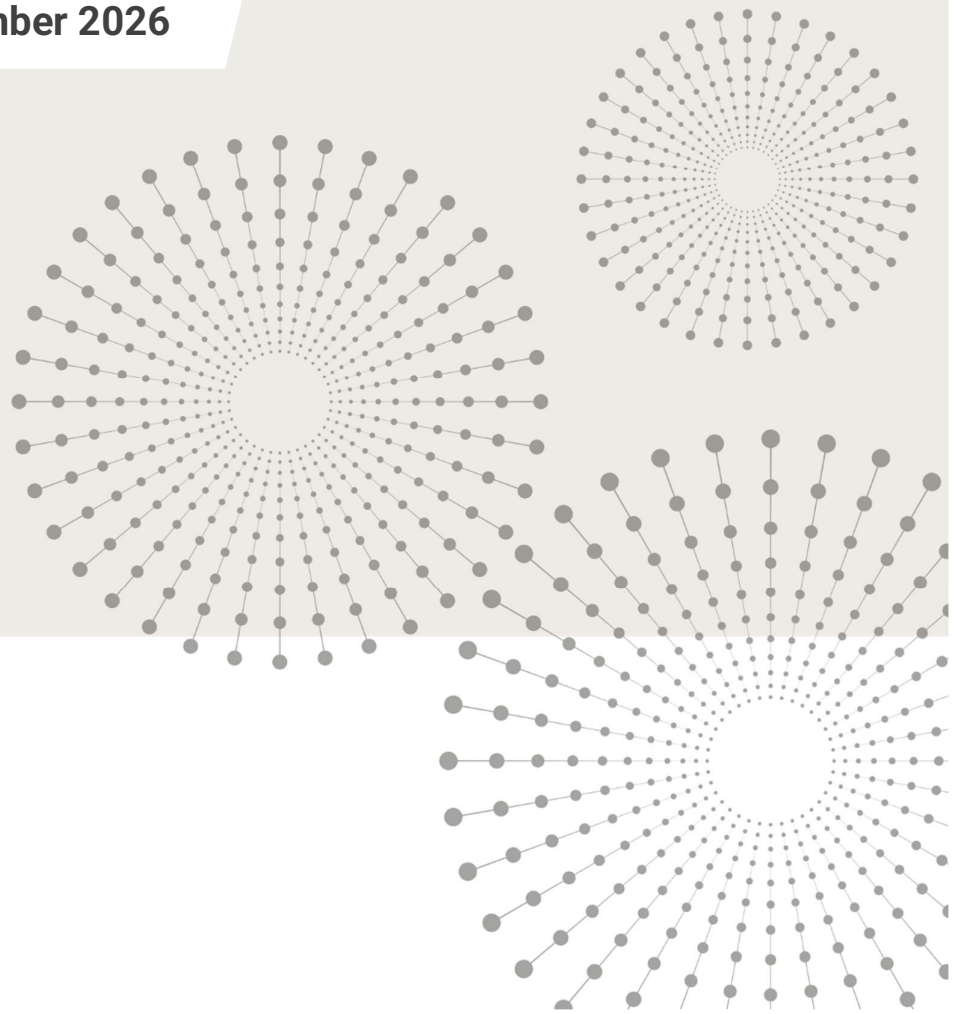
950.2 Firms might provide a range of non-assurance services to their assurance clients, consistent with their [skills-and](#) expertise. Providing certain non-assurance services to assurance clients might create threats to compliance with the fundamental principles and threats to independence.

...

Amendments to Assurance Engagements over Greenhouse Gas Emissions Disclosures 2025 Exposure Draft

Mandatory from 15 December 2026

Issued X



[Proposed] Amendments to Assurance Engagements over Greenhouse Gas Emissions Disclosures 2025

Issued x 2025

This amending Standard has been issued to amend NZ SAE 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures*.

In finalising this amending Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

Legal status of amending Standard

This amending Standard was issued on [date] by the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.

This amending Standard is secondary legislation for the purposes of the Legislation Act 2019.

This amending Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after the date of its publication. The amending Standard was published under the Legislation Act 2019 on [date] and takes effect on [date].

This Standard has been issued to amend NZ SAE 1 to reflect amendments arising due to the introduction of an assurance related adoption provision in NZ CS 2 *Adoption of Aotearoa New Zealand Climate Standards*.

Commencement and application

The accounting periods in relation to which this amending Standard commences to apply are for any assurance practitioner, those accounting periods that commence on or after 15 December 2026.

ISBN []

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Part A – Introduction

This amending Standard makes changes to NZ SAE 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures*. The amendments are to reflect amendments arising due to the adoption of International Standard On Sustainability Assurance (New Zealand) 5000, General Requirements For Sustainability Assurance Engagements.

Part B – Commencement and Application

The accounting periods in relation to which this amending Standard commences to apply are for any assurance practitioner, those accounting periods that commence on or after 15 December 2026.

Part C – Amendments to NZ SAE 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures*

Paragraph 26A is added. New text is underlined. Paragraph 27 and headings of the standard are provided for context.

Requirements

Applicable Assurance Standards

11. When conducting the assurance engagement required by the Financial Markets Conduct Act 2013, the assurance practitioner:
 - (a) Shall comply with either ISO 14064-3: 2019 *Greenhouse gases — Part 3: Specification with guidance for the verification and validation of greenhouse gas statements*¹ or ISAE (NZ) 3410 *Assurance Engagements on Greenhouse Gas Statements or ISSA (NZ) 5000 General Requirements for Sustainability Assurance Engagements*². Is not required to, but may, comply with PES 1³, and shall comply with the fundamental principles and independence requirements set out in paragraphs 13 to 23 of this standard.
 - (b) Is not required to, but may, comply with PES 3⁴, and shall comply with the quality management requirements set out in paragraphs 62 to 72 of this standard.
 - (c) Is not required to, but may, comply with PES 4⁵, and shall comply with the quality reviewer requirements set out in paragraph 73 to 78 of this standard.

¹ ISO 14064-3: 2019 is available for purchase from the Standards NZ website: website: <https://www.standards.govt.nz/shop/iso-14064-32019/>. We understand this ISO is subject to revision five years after being issued.

² International Standard on Sustainability Assurance (New Zealand) 5000, General Requirements for Sustainability Assurance Engagements (ISSA (NZ) 5000)

³ Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))*

⁴ Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

⁵ Professional and Ethical Standard 4 *Engagement Quality Reviews*

Use of the Work of Others

26. If the assurance practitioner intends to use the work of other individuals or organisations who have expertise in matters related to GHG emissions, the assurance practitioner shall:
- (a) Evaluate whether that individual or organisation has the necessary competence, capabilities and objectivity for the assurance practitioner's purposes;
 - (b) When evaluating objectivity, enquire with the individual or organisation regarding interests and relationships that may create a threat to that individual or organisation's objectivity; (Ref: Para. A33)
 - (c) Obtain a sufficient understanding of the field of expertise of the individual or organisation to determine the nature, scope and objectives of that individual or organisation for the assurance practitioner's purposes;
 - (d) Agree with the individual or organisation the nature, scope and objectives of their work; and
 - (e) Evaluate the adequacy of the work performed by the individual or organisation for the assurance practitioner's purposes. (Ref. Para. A34–A35)
- 26A In agreeing the nature of the work performed in accordance with paragraph 26 (d) and evaluating the adequacy of the work in accordance with paragraph 26 (e), if the assurance practitioner plans to use an assurance report of another assurance practitioner that has been designed for use by user entities and their assurance practitioner across a value chain (a one-to-many report), the assurance practitioner shall determine whether the assurance report provides sufficient appropriate evidence for their purposes by evaluating:
- (a) Whether the description of the procedures performed and the results thereof are appropriate for the assurance practitioner's purposes; and
 - (b) The adequacy of the standard(s) under which the assurance report was issued.
27. If the assurance practitioner intends to use the work of another assurance practitioner, who is not subject to their assurance organisation's system of quality control, the assurance practitioner shall follow the requirements of paragraph 26, where relevant, and shall perform the following additional steps:
- (a) Determine that the other assurance practitioner is independent of the assurance client and GHG disclosures;
 - (b) Evaluate whether the other assurance practitioner's system of quality management related to that assurance work is suitable for their purposes; and
 - (c) Communicate with that practitioner about the findings from their work.

Domestic Project	2024/25 planned action	Resource	Priority/effort	Key deliverable	Due
Review standard for service performance information	NZAuASB approved at its December meeting. Gazetted in February. Walk through and Deep Dive to promote awareness	Available	Medium	Standard issued	Dec 24 delay
ISA (NZ) for LCE	Consultation document issued. Approval to issue standard sought .	Available	High	ED issued	June 25
Monitor adoption of audit and review of service performance	Monitor developments, hold workshops, and issue guidance as needed. Update on guidance and discussion paper .	Available	High	Discussion Paper Guidance	June 25
Value of audit	Monitor audit reform in UK/Aus.	To manage	TBD	TBD	Ongoing
	Monitor inspection findings issued late early Dec. No actions identified, however links to work on going concern and fraud.	To manage	TBD	N/A	Feb
Monitor and comms over mandatory GHG assurance	Monitor developments, hold workshops and issue guidance. Guidance on scope 3 reporting and assurance in June .	Available	High	Snapshots Insights and FAQs Amendments	Ongoing
	Explore user needs and value of adding to assurance reports	TBD	TBD	TBD	Defer
Limited versus reasonable assurance	Assist the market understand the spectrum of assurance, what limited assurance means and the value of assurance. Update	Available	High	Animation/video GHG explainer	June
XRB strategy for climate assurance – adoption of ISSA 5000/ISO or something else	Continue to monitor international developments and government policy decisions. Refer agenda discussion	Available	TBD	TBD	TBD
Competency requirements for sustainability assurance	At the August meeting the Board agreed that no further action is needed at this time.	Available	Low	Agreed no action at this time	N/a
Update standard setting policy based on developments in assurance over climate disclosures	Revise EG Au2 and update harmonisation/convergence policy. Discussion pending on approach for sustainability matters	Available	TBD	Updated policy as appropriate	TBD
Consider assurance related issues related to He Taura and engage on audits of Māori entities	Monitor developments and if appropriate, consider assurance Engage proactively to seek Māori views on relevant issues	To manage	TBD	TBD	Defer
Digitisation	Standards navigator is live. Compiled standards included	To manage	TBD	TBD	Ongoing
Technology	IAASB technology position . Establish a technology reference group	To manage	TBD	TBD	TBD
Update EG AU8 in conjunction with AUASB	Approve project plan	Available	TBD	Revised guidance	Dec 25

IAASB

IAASB	2024/25 planned action	Resource	Priority /effort	Key deliverable	Due
Going concern revised standard	IAASB approved in Dec 2024. Issue final updated standard in New Zealand once certified by the PIOB. Agenda discussion May delay	Available	Medium	Standard	June 2025
Public Interest Entity track 2	IAASB limited consultation closed. NZAuASB agreed not to submit. The IAASB expect to approve in June.	Available	Low	Standard	Delay
Vision and roadmap for technology	IAASB approved technology position statement . Technology group established to monitor developments	Available	Medium	TBD	TBD
Reference framework model in relation to audit evidence	Project proposal approved by the IAASB in Dec 2024. Engage early to obtain views on issues	Available	Low	Exposure draft	April 2026
Performance aspects in relation to responding to assessed risk and analytical procedures	Project proposal approved by the IAASB in Dec 2024. Engage early to obtain views on issues	Available	Low	Exposure draft	April 2026
Narrow scope amendments from IESBA's use of experts	IAASB approved ED in March. Agenda to discuss submission	Available	Low	Submission	July 25
Explore issues on materiality in practice to inform international project to revise materiality standard	IAASB project deferred	Available	Medium	Delay	Delay
Fraud standard (ISA (NZ) 240)	IAASB approved in March 2025, pending PIOB certification . Adopt in New Zealand discussed in April.	Available	High	Standard	Aug 25
ISSA 5000 Sustainability	IAASB has approved ISSA 5000. Approve NZ exposure draft .	Available	Medium	Exposure draft	June 25
ISRE 2410 Interim Review Engagements	IAASB to approve project plan in June , supported by XRB and AUASB staff. .	Available	High	Project proposal	June 2025
Participate in NSS meetings/regional groups/advisory groups/task forces/host international guests	IAASB membership maintained. Participate and lead a discussion at NSS meeting. Report included	Available	High	Input and report back	May 2025

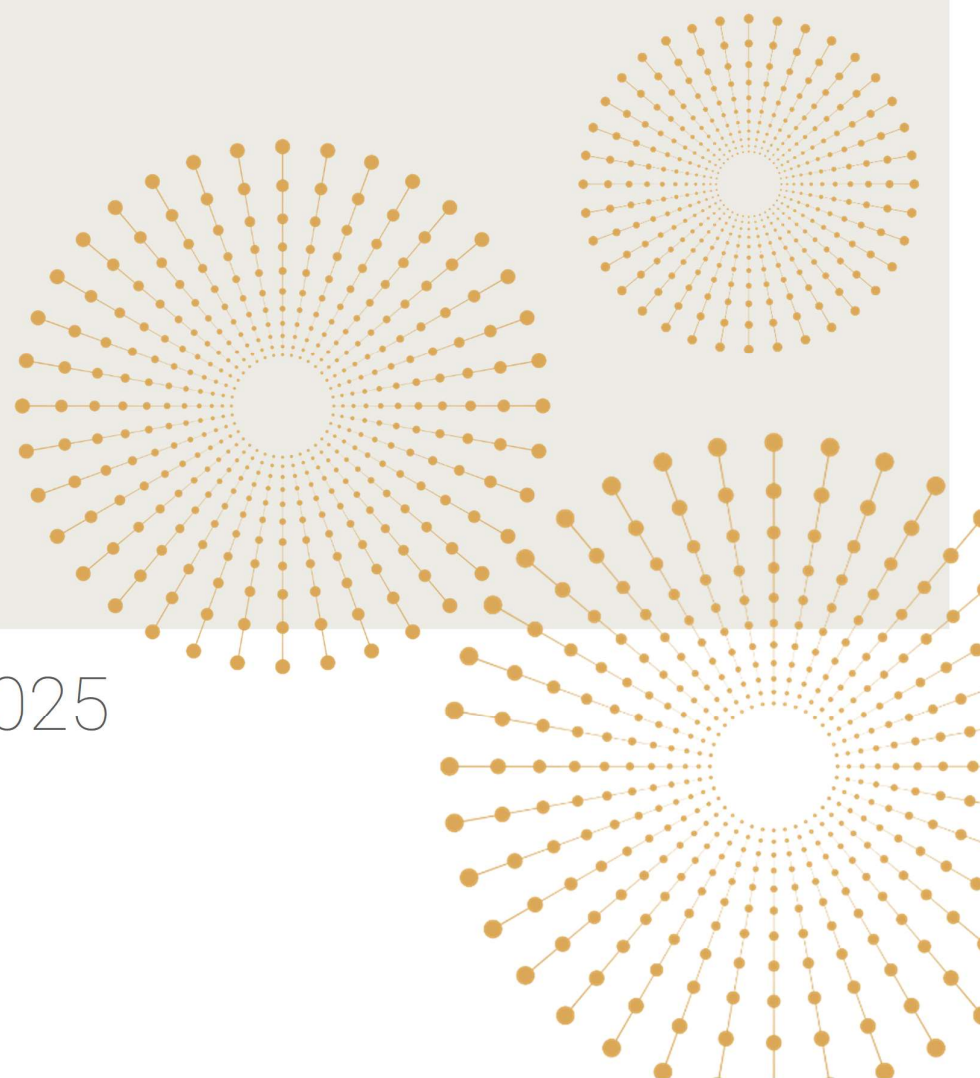
IESBA

IESBA	2024/25 planned action	Resource	Priority/effort	Key deliverable	Due date
Sustainability ethics and independence revisions (IESSA)	IESBA approved standard in Dec 2024 and issued in Jan 2025. Approve exposure draft	Available	High	Exposure draft	June 2025
Use of experts	IESBA approved standard in Dec 2024 and issued in Jan 2025. Approve exposure draft	Available	High	Exposure draft	June 2025
Collective investment vehicles	IESBA approved a consultation at its March meeting. Approve submission	Available	Low	Submission	June 2025
Firm Culture and Governance	Participate in Roundtable discussions and monitor developments	Available	Medium	TBD	Ongoing
Profession agnostic independence standards for sustainability assurance not in scope of Part 5	TBD		TBD		Delay
Post implementation review of non-compliance with laws and regulations (NOCLAR)	Participate in IESBA PIR	To manage	Medium	TBD	Delay
Participate in NSS meetings/regional groups/advisory groups/task forces/host international guests	Host IESBA members/staff Participate and lead a discussion at NSS meeting. Report included	Available	High	Input and report back	May 2025

International Standard on Auditing (New Zealand) 570 (Revised 2024) Going Concern

Commencement and application dates: refer to paragraphs 0.1-0.3 of this standard

Issued **month** 2025



DRAFT

ISA (NZ) 570 (REVISED 2024) GOING CONCERN

Legal status of Standard

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

This Standard is secondary legislation for the purposes of the Legislation Act 2019. A firm that is required to apply this Standard, is required to apply the Standard in accordance with the application date which is set out in paragraphs 0.1-0.3.

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

This Standard has been issued as a result of International Standard on Auditing 570 (Revised) being revised.

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ISBN XXX

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 570 (REVISED 2024)

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Conforming Amendment

Accompanying Attachment: Conformity to International Standards on Auditing

International Standard on Auditing (New Zealand) (ISA (NZ) 570 (Revised 2024), Going Concern, should be read in conjunction with ISA (NZ) 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand).

DRAFT

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*.

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

- 0.2 The accounting period in relation to which this standard commences to apply are those accounting periods following, and including, the first accounting period that begins on or after 15 December 2026.
- 0.3 This Standard supersedes ISA (NZ) 570 (Revised) *Going Concern*

* This standard was published on [date]

History of amendments**Table of pronouncements – ISA (NZ) 570 (Revised 2024) *Going Concern***

This table lists the pronouncements establishing and amending the ISA (NZ) 570 (Revised 2024) *Going Concern*.

Pronouncements	Date approved	Application date
International Standard on Auditing (New Zealand) 570 (Revised 2024)	[date]	Periods beginning on or after 15 December 2026

DRAFT

Introduction

Scope of this ISA (NZ)

1. ~~This~~ *[Amended by the NZAuASB]*

NZ1.1 ~~This~~ International Standard on Auditing (New Zealand) (ISA) (NZ) deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report. Although this ISA (NZ) applies irrespective of the entity's size or complexity, particular considerations apply only for audits of financial statements of ~~listed entities~~. FMC reporting entities considered to have a higher level of public accountability. (Ref: Para. A1–A2)

NZ1.2 For the purposes of this ISA (NZ), a reference to “management” is taken to mean “management, and where appropriate, those charged with governance”.

NZ1.3 ~~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. In these cases the process of financial reporting is usually delegated to management, but the responsibility for such matters remains with those charged with governance. In applying this standard the auditor shall apply professional judgement, using knowledge of the legal requirements and corporate governance practices of New Zealand as well as the particular engagement circumstances, to determine whether the requirements of this standard apply to management or those charged with governance or both.~~

Going Concern Basis of Accounting

2. Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. General purpose financial statements are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant (e.g., the going concern basis of accounting is not relevant for some financial statements prepared on a tax basis in particular jurisdictions). When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to ~~realize~~ realise its assets and discharge its liabilities in the normal course of business. (Ref: Para. A3)

Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern

Responsibilities of Management

3. Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern and include standards regarding matters to be considered and disclosures to be made in connection with going concern. For example, New Zealand Equivalent to International Accounting Standard ~~(1 (NZ IAS) 4 8)~~ requires management to make an assessment of an entity's ability to continue as a going concern.¹ The detailed requirements regarding

¹ NZ IAS 4, Presentation 8 Basis of Preparation of Financial Statements, paragraphs ~~25–26~~ 6K–6L

management's responsibility to assess the entity's ability to continue as a going concern and related financial statement disclosures may also be set out in law or regulation. (Ref: Para. A4)

4. In other financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. Nevertheless, where the going concern basis of accounting is a fundamental principle in the preparation of financial statements as discussed in paragraph 2, the preparation of the financial statements requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.
5. Management's assessment of the entity's ability to continue as a going concern involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions. The following factors are relevant to that judgment:
 - The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs. For that reason, most financial reporting frameworks that require an explicit management assessment specify the minimum period for which management is required to take into account all available information.
 - The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors affect the judgment regarding the outcome of events or conditions.
 - Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

Responsibilities of the Auditor

6. The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.
7. However, as described in ISA (NZ) 200,² the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions. Accordingly, the absence of a reference to an identified material uncertainty related to events or conditions that may cast significant

² ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing: (New Zealand)*, paragraphs A56–A57

doubt on the entity's ability to continue as a going concern in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

Effective Date

~~8. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2026.~~

8. *[Deleted by the NZAuASB. Refer paragraphs 0.1-0.3]*

Objectives

9. The objectives of the auditor are:
 - (a) To obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements;
 - (b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
 - (c) To report in accordance with this ISA ~~(NZ)~~.

Definition

10. For purposes of the ~~ISAs~~ ISA (NZ)s, the following term has the meaning attributed below:
 Material Uncertainty (Related to Going Concern)—An uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. "May cast significant doubt" is used to refer to circumstances where the magnitude of the potential impact and likelihood of occurrence of the identified events or conditions are such that, unless management's plans for future actions mitigate their effects, the entity may be unable to ~~realize~~ realise its assets and discharge its liabilities in the normal course of business and continue its operations for the foreseeable future. (Ref: Para. A5–A6)

Requirements

Risk Assessment Procedures and Related Activities

11. In applying ISA ~~(NZ)~~ 315 (Revised 2019),³ the auditor shall design and perform risk assessment procedures, including those required by paragraph 12, to obtain audit evidence that provides an appropriate basis for determining whether events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern. The identification of such events or conditions shall be before consideration of any related mitigating factors included in management's plans for future actions. (Ref: Para. A7–A15)

Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control

³ ISA ~~(NZ)~~ 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraphs 13-14

12. In applying ISA (NZ) 315 (Revised 2019),⁴ the auditor shall perform risk assessment procedures to obtain an understanding of: (Ref: Para. A9–A15)

The Entity and Its Environment

- (a) The entity's business model, objectives, strategies and related business risks relevant to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A16)
- (b) Industry conditions, including the competitive environment, technological developments, and other external factors affecting the entity's financing.
- (c) The measures used, internally and externally, to assess the entity's financial performance, including forecasts, future cash flows, and management's budgeting processes. (Ref: Para. A17)

The Applicable Financial Reporting Framework

- (d) The requirements of the applicable financial reporting framework relating to going concern, and the related disclosures that are required to be included in the entity's financial statements. (Ref: Para. A18, A20)
- (e) The basis for management's intended use of the going concern basis of accounting. (Ref: Para. A19–A20)

The Entity's System of Internal Control

- (f) Unless all of those charged with governance are involved in managing the entity,⁵ how those charged with governance exercise oversight over management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A21–A22)
- (g) The entity's risk assessment process to identify, assess and address business risks relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- (h) How management identifies the relevant method, significant assumptions and data that are appropriate in assessing the entity's ability to continue as a going concern. (Ref: Para. A23–A24)
- (i) How the entity's financial reporting process addresses disclosures related to the entity's ability to continue as a going concern. (Ref: Para. A25).

Remaining Alert Throughout the Audit for Information about Events or Conditions

13. The auditor shall remain alert throughout the audit for information about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A26–A29)

Events or Conditions not Previously Identified or Disclosed by Management

⁴ ISA (NZ) 315 (Revised 2019), paragraphs 19-27

⁵ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*, paragraph 13

14. In applying ISA (NZ) 315 (Revised 2019),⁶ the auditor shall determine whether the audit evidence obtained from risk assessment procedures and related activities indicates the existence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management has not previously identified or disclosed to the auditor. (Ref: Para: A30–A31)

Control Deficiencies Within the Entity's System of Internal Control

15. In applying ISA (NZ) 315 (Revised 2019),⁷ based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether one or more control deficiencies in respect of management's assessment of going concern have been identified. (Ref: Para. A32)

Evaluating Management's Assessment

16. Where management has not yet performed an assessment of the entity's ability to continue as a going concern, the auditor shall request management to make its assessment. If management is unwilling to make its assessment, the auditor shall consider the implications for the audit. (Ref: Para. A33)
17. The auditor shall design and perform audit procedures to evaluate management's assessment of the entity's ability to continue as a going concern, including the significant **judgments** on which management's assessment is based. (Ref: Para. A34–A36)
18. In designing and performing the audit procedures required by paragraph 17, the auditor shall do so in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. (Ref: Para. A37)

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

19. The audit procedures required by paragraph 17 shall include evaluating the method, significant assumptions and data used by management in assessing the entity's ability to continue as a going concern. In determining the nature and extent of such audit procedures, the auditor shall take into account the results of the risk assessment procedures performed. Such audit procedures shall address: (Ref: Para. A35, A38, A46)
- (a) The method used by management to assess the entity's ability to continue as a going concern, including whether the: (Ref: Para. A39)
 - (i) Method selected is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from the method used in prior periods are appropriate; and (Ref: Para. A40)
 - (ii) Calculations, if applicable, are applied in accordance with the method and are mathematically accurate. (Ref: Para. A41)
 - (b) Whether the significant assumptions on which management's assessment is based are: (Ref: Para. A42).

⁶ ISA (NZ) 315 (Revised 2019), paragraph 35

⁷ ISA (NZ) 315 (Revised 2019), paragraph 27

- (i) Appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate; and
 - (ii) Consistent with each other and with related assumptions used in other areas of the entity's business activities, based on the auditor's knowledge obtained in the audit.
- (c) Whether the data is:
- (i) Relevant and reliable; and (Ref: Para. A43–A44)
 - (ii) Appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate. (Ref: Para. A45)

Period Beyond Management's Assessment

20. The auditor shall ~~inquire~~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. If management or the auditor identifies such events or conditions, the auditor shall request management to evaluate the potential significance of the events or conditions on its assessment of the entity's ability to continue as a going concern. (Ref: Para. A47–A49)

Requesting Management to Extend Its Assessment

21. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of approval of the financial statements as defined in ISA (NZ) 560,⁸ the auditor shall request management to extend its assessment period to at least twelve months from that date. (Ref: Para. A50–A53)

Management Unwilling to Extend its Assessment

22. If management is unwilling to extend its assessment when requested to do so by the auditor, the auditor shall discuss the matter with management and, where appropriate, those charged with governance. (Ref: Para. A54–A56)
23. If, following the discussion required by paragraph 22, in the auditor's professional ~~judgment~~judgement it is necessary for management to extend its assessment and management remains unwilling to do so, the auditor shall determine the implications for the audit. (Ref: Para. A57)

Information Used in Management's Assessment

24. In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall consider whether management's assessment includes all relevant information of which the auditor is aware.
25. If the auditor identifies events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management has not previously identified or disclosed to the auditor, the auditor shall:

⁸ ISA (NZ) 560, *Subsequent Events*, paragraph 5(b)

- (a) Discuss the matter with management to understand the effects of those events or conditions on management's assessment of the entity's ability to continue as a going concern and request management to evaluate their potential significance;
- (b) Determine whether it is necessary to request management to revise its going concern assessment to address the effect of those events or conditions; and (Ref: Para. A58)
- (c) If applicable, design and perform additional audit procedures to evaluate management's assessment of the entity's ability to continue as a going concern in accordance with paragraphs 17-19.

Evaluating Management's Plans for Future Actions

26. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall evaluate management's plans for future actions in relation to its going concern assessment, including whether: (Ref: Para. A59–A62)
- (a) The outcome of these plans is likely to be sufficient to mitigate the effects of the identified events or conditions;
 - (b) Management's plans are feasible in the circumstances; and
 - (c) Management has both the intent and ability to carry out specific courses of action.
27. If management's plans for future actions include the use of significant assumptions or data, the auditor shall perform the audit procedures required by paragraph 19(b)-(c).

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

28. If management's plans for future actions include financial support by third parties or related parties, including the entity's owner-manager, the auditor shall obtain audit evidence about the intent and ability of those parties to maintain or provide the necessary financial support. (Ref: Para. A63–A65)

Information Becomes Known After the Date of the Auditor's Report

29. If additional information becomes known to the auditor after the date of the auditor's report but before the date the financial statements are issued that is related to management's assessment of the entity's ability to continue as a going concern, the auditor shall perform procedures in accordance with ISA (NZ) 560. (Ref: Para. A66)

Evaluating the Audit Evidence Obtained and Concluding

30. The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding, and shall conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements. In doing so, the auditor shall: (Ref: Para. A67)
- (a) Evaluate whether the **judgments** and decisions made by management in making its assessment of the entity's ability to continue as a going concern, even if they are individually reasonable, are indicators of possible management bias. When indicators of possible management bias are identified, the auditor shall evaluate the implications for the audit. (Ref: Para. A68–A71)

- (b) Consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions in the financial statements.
31. Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's professional ~~judgment~~judgement, 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. (Ref: Para. A72)

Adequacy of Disclosures

Adequacy of Disclosures When No Material Uncertainty Exists

32. 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, including, as applicable, when significant ~~judgments~~judgements are made by management in concluding that there is no material uncertainty. (Ref: Para. A73–A76)

Adequacy of Disclosures When a Material Uncertainty Exists

33. If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements: (Ref: Para. A77)
- (a) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans for future actions to address 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 the entity may be unable to ~~realize~~realise its assets and discharge its liabilities in the normal course of business and continue its operations for the foreseeable future.

When a material uncertainty exists, adequate disclosure of the nature and implications of the uncertainty is necessary for:

- (i) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or
- (ii) In the case of a compliance framework, the financial statements not to be misleading.

Implications for the Auditor's Report

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

34. If the auditor concludes that the going concern basis of accounting is appropriate and no material uncertainty exists, the auditor shall include a separate section in the auditor's report with the heading "Going Concern", and: (Ref: Para. A78–A79)
- (a) State that: (Ref: Para. A80–A81)
 - (i) In the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, the auditor concluded that management's use of

the going concern basis of accounting in the preparation of the financial statements is appropriate;

- (ii) Based on the audit evidence obtained, the auditor has not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
- (iii) The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report and are not a guarantee as to the entity's ability to continue as a going concern.

(b) *[Amended by the NZAuASB]*

NZ34(b) For an audit of financial statements of a listed FMC reporting entity considered to have a higher level of public accountability, when significant judgments are made by management in concluding that there is no material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern: (Ref: Para. A82–A83, A89)

- (i) Include a reference to the related disclosure(s) in the financial statements, if any; and (Ref: Para. A73–A76)
- (ii) Describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A84–A88)

Use of Going Concern Basis of Accounting Is Appropriate – A Material Uncertainty Exists

Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements

35. If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" and: (Ref: Para. A78–A79, A90–A91)

- (a) Include a reference to the related disclosure(s) in the financial statements; (Ref: Para. A73, A77)
- (b) *[Amended by the NZAuASB]*

NZ35(b) For an audit of financial statements of a listed FMC reporting entity considered to have a higher level of public accountability, describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern; (Ref: Para. A84–A88)

- (c) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern;
- (d) State that:
 - (i) The auditor's opinion is not modified in respect of the matter;
 - (ii) In the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, the auditor concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
 - (iii) The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report and are not a guarantee as to the entity's ability to continue as a going concern.

Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements

36. If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall: (Ref: Para. A78–A79, A90, A92)

- (a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA (NZ) 705 (Revised);⁹
- (b) In the Basis for Qualified (Adverse) Opinion section of the auditor’s report, state that a material uncertainty exists and that the financial statements do not adequately disclose this matter;
- (c) Include in the auditor’s report a separate section under the heading “Material Uncertainty Related to Going Concern” and:
 - (i) Draw attention to the Basis for Qualified (Adverse) Opinion section of the auditor’s report that states that a material uncertainty exists that has not been adequately disclosed in the financial statements;
 - (ii) State that:
 - a. In the context of the audit of the financial statements as a whole, and in forming the auditor’s opinion thereon, the auditor concluded that management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
 - b. The auditor’s conclusions are based on the audit evidence obtained up to the date of the auditor’s report and are not a guarantee as to the entity’s ability to continue as a going concern.

Considerations When the Auditor Disclaims an Opinion on the Financial Statements

37. When the auditor disclaims an opinion on the financial statements, unless required by law or regulation, the auditor shall not include separate sections on Going Concern or Material Uncertainty Related to Going Concern in the auditor’s report.¹⁰ (Ref: Para. A93–A94)

Use of Going Concern Basis of Accounting Is Inappropriate

38. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor’s professional ~~judgment~~judgement, management’s use of the going concern basis of accounting in the preparation of the financial statements is inappropriate: (Ref: Para. A95–A96)

- (a) The auditor shall express an adverse opinion; and
- (b) Unless required by law or regulation, the auditor shall not include separate sections on Going Concern or Material Uncertainty Related to Going Concern in the auditor’s report.

Written Representations

39. ~~The~~[Amended by the NZAuASB]

⁹ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor’s Report*

¹⁰ ISA (NZ) 705 (Revised), *paragraph 29*

NZ39.1The auditor shall request written representations from ~~management and, where appropriate,~~ those charged with governance¹¹ addressing: (Ref: Para. A97)

- (a) Whether management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
 - (b) Whether the method, significant assumptions and data used in management's assessment of going concern and any related disclosures are appropriate in the context of the applicable financial reporting framework;
 - (c) That management's assessment of going concern reflects all events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management is aware of, and all such events or conditions, if any, have been disclosed to the auditor; and
 - (d) That matters relevant to going concern have been adequately disclosed in the financial statements, including, when applicable, significant ~~judgments~~judgements made by management in concluding that there is no material uncertainty.
40. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern the written representations required by paragraph 39NZ39.1 shall also address: (Ref: Para. A97)
- (a) Management's plans for future actions and whether such plans mitigate the effects of the identified events or conditions;
 - (b) The feasibility of these plans; and
 - (c) Whether management has the intent to carry out specific courses of action and has the ability to do so.

Communication with Those Charged with Governance

41. Unless all those charged with governance are involved in managing the entity,¹² the auditor shall communicate on a timely basis 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. (Ref: Para. A98–A99)
42. If events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall communicate with those charged with governance: (Ref: Para. A100)
- (a) Whether the events or conditions constitute a material uncertainty;
 - (b) Whether management's use of the going concern basis of accounting is appropriate in the preparation of the financial statements;
 - (c) An overview of the audit procedures performed and the basis for the auditor's conclusions, including the auditor's evaluation of management's plans for future actions;
 - (d) The adequacy of related disclosures in the financial statements, including disclosures that describe the significant ~~judgments~~judgements made by management and the

¹¹ ISA (NZ) 580, Written Representations

¹² ISA (NZ) 260 (Revised), paragraph 13

- mitigating factors in management’s plans that are of significance to overcoming the adverse effects of the events or conditions;
- (e) When applicable, management’s unwillingness to make or extend its assessment of the entity’s ability to continue as a going concern when requested; and
 - (f) The implications for the audit or the auditor’s report. (Ref: Para. A101)

Reporting to an Appropriate Authority Outside of the Entity

43. When the auditor considers including a separate section under the heading “Material Uncertainty Related to Going Concern” in the auditor’s report, or issuing a modified opinion in respect of matters related to going concern, the auditor shall determine whether law, regulation or relevant ethical requirements: (Ref: Para. A102–A105)
- (a) Require the auditor to report to an appropriate authority outside the entity.
 - (b) Establish responsibilities or rights under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

Documentation

44. In applying ISA (NZ) 230,¹³ the auditor shall include in the audit documentation significant professional ~~judgments~~judgements made relating to the auditor’s:
- (a) Conclusions on:
 - (i) The appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements; and
 - (ii) Whether or not a material uncertainty exists; and
 - (b) Determination of the adequacy of management’s disclosures in the financial statements related to going concern.

Application and Other Explanatory Material

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

- A1. In addition to the matters addressed by this ISA (NZ), ISA (NZ) 701¹⁴ deals with the auditor’s responsibility to communicate key audit matters in the auditor’s report. That ISA (NZ) acknowledges that, when ISA (NZ) 701 applies, the following are, by their nature key audit matters:¹⁵
- A material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern; or
 - When significant ~~judgments~~judgements were made by management in concluding that there is no material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.

¹³ ISA (NZ) 230, *Audit Documentation*, paragraphs 8–11, A6–A7 and Appendix

¹⁴ ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*

¹⁵ ISA (NZ) 701, paragraph 15

However, in such circumstances, the implications for the auditor’s report are in accordance with this ISA- (NZ).

A2. *[Amended by the NZAuASB]*

NZA2 For audits of financial statements of ~~listed~~ **FMC reporting** entities **considered to have a higher level of public accountability**, when the auditor concludes, based on the audit evidence obtained, that no material uncertainty exists, and significant ~~judgments~~ **judgements** were made by management in concluding that there is no material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern, this ISA (NZ) requires the auditor to disclose under the heading of “Going Concern” within the auditor’s report how the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern.

Going Concern Basis of Accounting

Considerations Specific to Public Sector Entities (Ref: Para. 2)

A3. Management’s use of the going concern basis of accounting is also relevant to public sector entities. For example, **Public Benefit Entity International Public Sector Accounting Standard (1 (PBE IPSAS) 1)** addresses the issue of the ability of public sector entities to continue as going concerns.¹⁶ Going concern risks may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where government support may be reduced or withdrawn, or in the case of privatization. Events or conditions that may cast significant doubt on an entity’s ability to continue as a going concern in the public sector may include situations where the public sector entity lacks funding for its continued existence or when policy decisions are made that affect the services provided by the public sector entity.

Responsibility for Assessment of the Entity’s Ability to Continue as a Going Concern

Responsibilities of Management (Ref: Para. 3)

A4. The circumstances in which entities prepare financial statements on a going concern basis of accounting may vary. For example, **NZ IAS 4-8** explains that those circumstances could range from when an entity has a history of profitable operations and ready access to financial resources, to when management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.¹⁷

Definition

(Ref: Para. 10)

A5. The applicable financial reporting framework may or may not explicitly use the term “material uncertainty” when describing the uncertainties that are required to be disclosed in the financial statements related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. For example, the term “material uncertainty” is used in **NZ IAS 4-8** and **PBE IPSAS 1**. In some other financial reporting frameworks, the term “significant uncertainty” is used in similar circumstances. The

¹⁶ **PBE IPSAS 1, Presentation of Financial Statements Reports**, paragraphs 38–41

¹⁷ **NZ IAS 4-8**, paragraph **26-6L**

auditor is required by paragraph 31 to conclude whether a material uncertainty exists regardless of whether or how the applicable financial reporting framework defines a “material uncertainty.” The applicable financial reporting framework may also not define or describe the term “may cast significant doubt” or may use other terms or phrases.

- A6. Plans for future actions may include, for example, that management ~~realizes~~realises assets sooner than originally intended or obtains alternative or additional sources of liquidity to support the entity’s ability to continue as a going concern (also see paragraphs 26–28). In such circumstances, the timing of the events or conditions giving rise to the uncertainty may also be relevant. For example, the shorter the time period in which management must take action, the more significant the uncertainty may be about the entity’s ability to continue as a going concern.

Risk Assessment Procedures and Related Activities

Events or Conditions That May Cast Significant Doubt on the Entity’s Ability to Continue as a Going Concern (Ref: Para. 11)

- A7. Some events or conditions may not cast significant doubt when considered individually, however when considered collectively with other events or conditions they may cast significant doubt on the entity’s ability to continue as a going concern.

Examples:

The following are examples of identified events or conditions that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern. These examples are not all-inclusive.

Financial

- Net liability or net current liability position.
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
- Indications of withdrawal of financial support by creditors.
- Recurring negative cash flows from operations or inability to generate cash flows from operations indicated by historical or prospective financial statements.
- Adverse key financial ratios.
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
- Arrears or discontinuance of dividends.
- Inability to pay creditors on due dates.
- Non-compliance or marginal ability to meet debt repayment or other debt covenant requirements or comply with the terms of loan agreements.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain additional debt or equity financing to stay competitive, including for financing or major research and development, capital expenditures, essential new product development and other essential

	<p>investments.</p> <ul style="list-style-type: none"> • Exposure to liquidity risk as a result of the maturity mismatch of financial assets and liabilities.
Operating	<ul style="list-style-type: none"> • Management intentions to liquidate the entity or to cease operations. • Loss of key personnel and management without replacement. • Significant declines in customer demand. • Loss of a major market, significant customer(s), franchise, license, or principal supplier(s). • Labour<u>Labour</u> difficulties. • Shortages of important supplies. • Emergence of a highly successful competitor.
Other	<ul style="list-style-type: none"> • Significant or sustained business interruption due to a cyber attack (e.g., denial of access to information or inability to provide service). • Non-compliance or marginal ability to meet capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions or exchange listing requirements. • Pending litigation and contingent liabilities arising from matters such as sales warranties, financial guarantees and environmental remediation or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy. • Changes in law or regulation or government policy expected to adversely affect the entity, including sustainability related matters. • Substantial decrease in share price. • Significant exposures to volatile markets, such as exchange rates, commodities (e.g., crude oil prices), equities or interest rates. • Uninsured or underinsured catastrophes or business interruption losses when they occur (e.g., an earthquake). • Changes in the environment such as war, civil unrest, outbreaks of disease expected to adversely affect the entity or physical risks related to climate change (e.g., extreme flooding).

A8. In certain circumstances, the auditor may identify fraud risk factors arising from events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that are relevant to the identification and assessment of the risks of material misstatement due to fraud in accordance with ISA (NZ) 240 (Revised).¹⁸

¹⁸ ISA (NZ) 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 2427

Examples:

- Recurring negative cash flows from operations or an inability to generate cash flows from operations may create a threat of bankruptcy, foreclosure, or hostile takeover that may indicate an incentive or pressure to commit fraud.
- Non-compliance or marginal ability to meet debt covenant requirements may threaten the ability to renew borrowings and indicate an incentive or pressure to improve the business performance or to intentionally misstate the financial statements.

Risk Assessment Procedures and Related Activities (Ref: Para. 11–12)

A9. ISA (NZ) 315 (Revised 2019) contains requirements and guidance regarding the auditor's responsibility to obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control, and the identification and assessment of the risks of material misstatement whether due to fraud or error. The requirements and guidance in this ISA (NZ) refer to, or expand on, what is required by ISA (NZ) 315 (Revised 2019) relevant to identifying events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

A10. The risk assessment procedures and related activities assist the auditor in determining whether management's use of the going concern basis of accounting is likely to be an important issue and its impact on planning the audit. In particular, when performing risk assessment procedures, such as those required by paragraphs 11–12, the auditor may identify information about certain events or conditions that, when considered individually or collectively, indicate that there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. These procedures also allow for more timely discussions with management, including a discussion of management's plans for future actions and resolution of any identified going concern issues when events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern. The auditor uses professional ~~judgment~~ judgement to determine the nature and extent of the risk assessment procedures to be performed to meet the requirements of this ISA (NZ).

A11. ISA (NZ) 315 (Revised 2019)¹⁹ requires the auditor to design and perform risk assessment procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. Designing and performing risk assessment procedures in an unbiased manner may assist the auditor in identifying potentially contradictory information. This may assist the auditor in maintaining professional ~~skepticism~~ scepticism when identifying whether the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern give rise to a risk of management bias in the preparation of the financial statements (also see paragraphs A68–A71).

A12. The following are examples of risk assessment procedures that may be relevant:

Examples:

¹⁹ ISA (NZ) 315 (Revised 2019), paragraph 13

The Entity and its Environment

- Inquiries of financial planning and analysis personnel related to cash flow, profit and other relevant forecasts to understand the sensitivity analysis related to future earnings included in management's assessment of going concern.
- Inquiries of the entity's legal counsel about the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.
- Review of previous forecasts (retrospective review) to obtain information regarding the effectiveness of management's process for assessing going concern.
- Inspecting the terms of debentures and loan agreements and determining whether any have been breached.

The Applicable Financial Reporting Framework

- Review of disclosures about the significant ~~judgments~~ ~~judgements~~ and assumptions management makes about the future included in the entity's latest available financial statements that may be indicative of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

The Entity's System of Internal Control

- Inspecting the minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.

A13. The auditor may also use automated tools and techniques when designing and performing risk assessment procedures as required by paragraph 11.

Examples:

The auditor may use automated tools and techniques when:

- Performing analytical procedures to understand the trends of key financial ratios (e.g., the entity's key sources of earnings and their relationship to cash generation) or identify inconsistencies or unusual events.
- Applying predictive models to assess an entity's financial condition or to understand the impact of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (e.g., models for prediction of bankruptcy or insolvency).

Scalability (Ref: Para. 11–12)

A14. The nature and extent of the auditor's risk assessment procedures may vary based on the nature and circumstances of the entity.

Examples:

The Entity and its Environment

- The nature and extent of the auditor's risk assessment procedures to obtain an understanding of the measures used, internally and externally, to assess the entity's financial performance are likely to be more extensive for entities with a complex structure and business activities. Such entities may also have complex borrowing

arrangements with lenders, suppliers or group entities. In contrast, for smaller or less complex entities whose business activities are simple with few lines of business and with uncomplicated borrowing arrangements, the auditor's risk assessment procedures are likely to be less extensive.

The Applicable Financial Reporting Framework

- When the entity's business activities are affected to a lesser degree by uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the related disclosures in the entity's financial statements may be straightforward and the applicable financial reporting requirements may be simpler to apply. In such circumstances, the auditor's procedures to obtain an understanding of the basis for management's intended use of the going concern basis of accounting are likely to be less extensive.

The Entity's System of Internal Control

- The nature and extent of the auditor's risk assessment procedures may also depend on the extent to which certain matters apply in the circumstances. For example, those charged with governance in smaller or less complex entities may not include independent or outside members who exercise oversight over management's assessment of the entity's ability to continue as a going concern. In addition, the entity's risk assessment process may be undertaken through the direct involvement of the owner-manager.

A15. The following considerations may be relevant for smaller or less complex entities:

- The size of an entity may affect its ability to withstand adverse conditions. Smaller entities may be able to respond quickly to exploit opportunities, but may lack reserves to sustain operations.
- Conditions of particular relevance to smaller entities include the risk that banks and other lenders may cease to support the entity, as well as the possible loss of a principal supplier, major customer, key employee, or the right to operate under a license, franchise or other legal agreement.

Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control

The Entity and Its Environment (Ref: Para. 12(a), 12(c))

A16. The entity's business model, objectives, strategies and related business risks may give rise to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Some business risks may be so significant that they have implications for the conclusion as to the appropriateness of the entity's use of the going concern basis of accounting and whether a material uncertainty exists.

Examples:

- Industry developments, such as the lack of access to appropriate personnel or expertise to deal with the changes in the industry or loss of significant customers or market share.
- New products and services that may lead to increased product liability.
- Expansion of the entity's business, and demand that has not been accurately

estimated.

- Regulatory requirements resulting in increased legal exposure or financial impacts or restrictions on business activities, including those arising from sustainability related matters.
- Current and prospective financing requirements, such as loss of financing due to the entity's inability to meet certain predetermined revenue metrics.
- Incentives and pressures on management, which may result in management bias, and therefore affect the reasonableness of assumptions used in management's assessment of the entity's ability to continue as a going concern.

A17. Management will likely use information available about the future as well as historical information from internal and external sources when identifying events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Obtaining an understanding of the measures used, internally or externally, may highlight unexpected results or trends that may be indicative of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Examples:

- Internal performance measures may indicate an unusual deterioration in sales volume when compared to that of other entities in the same industry that may be indicative of a significant decline in market share or loss of customers.
- External information sources, such as pricing data, comparable data about competitors (benchmarking data) or macro-economic data may indicate competitive, industry, economic and other factors that are used in the entity's forecasts, future cash flow and budgeting processes.
- The analysis of the entity's financial performance by external parties, such as analysts, credit agencies or institutional investors, may highlight inconsistencies with management's performance measures.

The Applicable Financial Reporting Framework (Ref: Para. 12(d), 12(e))

A18. Obtaining an understanding of the requirements of the applicable financial reporting framework provides the auditor with information about the recognition, measurement and presentation criteria in the applicable financial reporting framework, and how they apply in the preparation of the financial statements under the going concern basis of accounting. The applicable financial reporting framework may also include disclosure requirements about the significant **judgments** and assumptions management makes in concluding whether or not there is a material uncertainty related to going concern. Law or regulation may also include disclosure and other detailed requirements when preparing financial statements on the going concern basis of accounting.

A19. The nature, extent, timing and frequency of management's assessment of the entity's ability to continue as a going concern may vary from entity to entity. In some entities, management may make assessments of the entity's ability to continue as a going concern more frequently as part of ongoing monitoring, while in other entities it may be made on an annual basis. If such an assessment has not yet been performed, the auditor may obtain an understanding of the basis for the intended use of the going concern basis of accounting

through discussion with management and ~~inquire~~~~enquire~~ of management whether events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern.

Considerations Specific to Public Sector Entities (Ref: Para. 12(d), 12(e))

A20. In some jurisdictions the applicable financial reporting framework may include specific guidance for public sector entities in relation to going concern that is relevant to management's assessment of the entity's ability to continue as a going concern. For example, such guidance may ~~recognize~~~~recognise~~ the relevance of considering the ongoing nature of government programs to certain public sector entities and the presumption of continuation of public services and associated government funding to deliver these programs.

The Entity's System of Internal Control (Ref: Para. 12(f), 12(h), 12(i))

A21. Obtaining an understanding of the oversight by those charged with governance may be particularly important when the assessment of the entity's ability to continue as a going concern:

- Requires significant ~~judgment~~~~judgement~~ by management to assess whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; or
- Is complex to make, for example, because of the use of multiple data sources or assumptions with complex interrelationships.

A22. The effectiveness of management's assessment of the entity's ability to continue as a going concern may be influenced by the oversight exercised by those charged with governance. The auditor may obtain an understanding of whether those charged with governance:

- Have the skills or knowledge to understand the appropriateness of the method used by management in assessing the entity's ability to continue as a going concern.
- Have the skills or knowledge to understand whether management's assessment of the entity's ability to continue as a going concern has been made in accordance with the requirements of the applicable financial reporting framework.
- Are independent from management, have the information required to evaluate on a timely basis how management made the assessment of the entity's ability to continue as a going concern, and the authority to call into question management's actions when those actions appear to be inadequate or inappropriate.
- Oversee management's process for making the assessment of the entity's ability to continue as a going concern.

A23. Aspects that may be relevant to the auditor's understanding of how management determines the relevant method, significant assumptions and data may include:

- The basis for management's selection of the method, assumptions and data used in assessing the entity's ability to continue as a going concern; and
- If alternative methods, assumptions or data were considered by management, including:
 - How management determines that the assumptions are relevant and complete.

- How management determines the relevance, accuracy and completeness of the data used in the assessment.

A24. If management has changed its method for assessing the entity's ability to continue as a going concern from the prior period, considerations may include whether the new method is, for example, more appropriate, is itself a response to changes in the environment or circumstances affecting the entity, or to changes in the requirements of the applicable financial reporting framework or regulatory environment, or whether management has another valid reason. If management has not changed its method for assessing the entity's ability to continue as a going concern, considerations may include whether the continued use of the previous method, significant assumptions and data is appropriate in view of the current environment or circumstances.

A25. The disclosures related to the entity's ability to continue as a going concern may contain information that is obtained from other supporting records and information from outside of the general and subsidiary ledgers (e.g., information produced by an entity's risk management system about hedging strategies or sensitivity analysis derived from financial models that demonstrate management has considered alternative assumptions). As part of obtaining an understanding of the entity's system of internal control, the auditor may consider how management determines the appropriateness of such information used to develop the disclosures related to the entity's ability to continue as a going concern.

Remaining Alert Throughout the Audit for Information about Events or Conditions (Ref: Para. 13)

A26. As explained in ISA (NZ) 315 (Revised 2019),²⁰ obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control is a dynamic and iterative process of gathering, updating and **analyzing** information and continues throughout the audit. Therefore, the auditor's determination of whether events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern may change as new information is obtained.

Example:

The auditor may identify a risk of a material misstatement associated with the valuation assertion for a lender of medium-term real estate backed loans because of a fall in real estate market values. The same event in combination with a severe economic downturn may have a longer-term consequence and a greater impact on the assessment of the risk of material misstatement that may also indicate an event or condition that may cast significant doubt on the entity's ability to continue as a going concern.

A27. ISA (NZ) 315 (Revised 2019) requires the auditor to revise the auditor's identification or assessment of the risks of material misstatement if the auditor obtains new information which is inconsistent with the audit evidence on which the auditor originally based the identification or assessment of risk.²¹ If events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are identified after the auditor's risk identification or assessments are made, in addition to performing the procedures in this

²⁰ ISA (NZ) 315 (Revised 2019), paragraph A48

²¹ ISA (NZ) 315 (Revised 2019), paragraph 37

ISA (NZ), the auditor's identification or assessment of the risks of material misstatement may need to be revised.

A28. The auditor may also become aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern from:

- External information sources (e.g., publicly available information of the entity's financial performance by external parties, such as information about short-selling of shares, industry or macro-economic forward-looking information such as economic or earnings forecasts).
- Other engagements performed for the entity (e.g., an agreed-upon procedures engagement).
- The auditor's consideration of the other information in accordance with ISA (NZ) 720 (Revised).²²

Considerations Specific to Public Sector Entities (Ref: Para. 13)

A29. In the public sector some entities may have broader responsibilities to publicly report beyond the preparation of the financial statements which may provide the auditor information about events or conditions that may cast significant doubt on an entity's ability to continue as a going concern. For example, in certain jurisdictions public sector entities may be required to report on long-term fiscal sustainability of a public sector entity's finances and the auditor may have additional responsibilities established by law or regulation with respect to such information. In such cases, the auditor may become aware of long-term fiscal sustainability concerns that may be indicative of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Events or Conditions not Previously Identified or Disclosed by Management (Ref: Para. 14)

A30. If the auditor identifies events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management failed to identify or disclose to the auditor, this may constitute a deficiency in internal control. ISA (NZ) 265²³ deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements.

A31. When management has intentionally failed to identify or disclose to the auditor events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, this may raise doubts about their integrity and honesty, such as when the auditor suspects an intention to mislead. ISA (NZ) 240 (Revised) provides further requirements and guidance in relation to the identification and assessment of the risks of material misstatement due to fraud.²⁴

Control Deficiencies Within the Entity's System of Internal Control (Ref: Para. 15)

A32. When the auditor identifies one or more control deficiencies with respect to management's

²² ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

²³ ISA (NZ) 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

²⁴ ISA (NZ) 240 (Revised), paragraphs 26-28, 39-41

assessment of going concern, ISA (NZ) 265 requires the auditor to determine whether, individually or in combination, the deficiencies in internal control constitute a significant deficiency. Matters the auditor may consider in determining whether a significant deficiency in internal control exists related to management's assessment of going concern may include:

- Absence of a process established by management to identify, assess and address events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- Ineffective oversight by those charged with governance over management's assessment of the entity's ability to continue as a going concern.
- Evidence that management has failed to identify or disclose events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Evaluating Management's Assessment

Requesting Management to Make an Assessment (Ref: Para. 16)

A33. When management is unwilling to make an assessment of the entity's ability to continue as a going concern, even when the financial reporting framework does not include an explicit requirement to do so, the auditor may consider management's lack of assessment as a limitation on the audit evidence the auditor has obtained. In accordance with ISA (NZ) 705 (Revised), when the possible effects on the financial statements of the inability to obtain sufficient appropriate audit evidence are pervasive, the auditor disclaims an opinion.

Management's Assessment and Supporting Analysis and the Auditor's Evaluation (Ref: Para. 17)

A34. Management's assessment of the entity's ability to continue as a going concern is a key part of the auditor's evaluation whether:

- Management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- A material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

A35. It is not the auditor's responsibility to rectify a lack of analysis by management. In some circumstances, however, a less extensive analysis by management to support its assessment may not prevent the auditor from concluding whether management's use of the going concern basis of accounting is appropriate in the circumstances. For example, when the entity has profitable operations and there are no liquidity concerns, and the entity's risk assessment process has not identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the method, assumptions and data used by management to make its assessment may be less extensive. However, in situations when, in the auditor's professional ~~judgment~~ **judgement**, management has not performed an appropriate assessment based on the nature and circumstances of the entity, this may be an indicator of a deficiency in internal control in accordance with ISA (NZ) 265.

Considerations Specific to Public Sector Entities (Ref: Para. 17)

A36. For certain public sector entities that are able to draw upon government assistance,

management's assessment of going concern may not always be based on solvency or liquidity tests and other factors may be more relevant when the auditor evaluates the entity's ability to continue as a going concern. For example, the absence of a change in government policy in the assessment period may be more relevant when determining whether continued funding is likely to be secured to enable the entity to ~~realize~~realise its assets and discharge its liabilities in the normal course of business and continue its operations for the foreseeable future.

Obtaining Audit Evidence in an Unbiased Manner (Ref: Para. 18)

A37. Obtaining audit evidence in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of information to be used as audit evidence.

Examples:

Contradictory information may include:

- The results of the auditor's procedures to evaluate the assumptions used by management in a cash flow forecast highlight inconsistencies with assumptions used for other purposes, such as forecasts used to evaluate the recoverability of deferred tax assets or impairment of assets.
- Credit history information from external sources may indicate financial difficulties for significant customer(s) that has not been considered by management when assessing the recoverability of account receivable balances.
- The outcome of the analysis performed for other account balances is indicative of deteriorating financial performance (e.g., increased inventory obsolescence, delays in payments from customers, changes in customer base, increased borrowings or delays in payments to creditors) that is not adequately considered by management when making its assessment of going concern.

Corroborative information may include:

- Publicly available information from external sources, such as analysts' expectations or industry data that is consistent with forecasts and assumptions used by management in its assessment of going concern.

Method, Significant Assumptions and Data Used in Management's Assessment (Ref: Para. 19)

A38. The method, significant assumptions and data used by management in its assessment of the entity's ability to continue as a going concern support the ~~judgments~~judgements made by management about the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements and whether a material uncertainty exists.

Method (Ref: Para. 19(a))

A39. "Method" refers to the approach taken by management to assess the entity's ability to continue as a going concern. A method may be based on using qualitative or quantitative information and involves applying assumptions and data, and taking into account a set of relationships between them.

Examples:

- When the entity's business activities are more complex or susceptible to a greater degree by uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, management's method may require input from multiple sources of historical and forward-looking data. The method may also include significant ~~judgments~~ **judgements** and assumptions with multiple interrelationships between them or from sources of data external to the entity. Supporting analysis may include the effects of adverse scenarios or may employ sensitivity and scenario analysis to consider alternative outcomes related to the entity's current and expected profitability, its liquidity sources, financial obligations and the funds necessary to maintain the entity's operations for the foreseeable future. Supporting analysis may also reflect the interdependencies between risk variables that impact liquidity, market and credit risks.
- When the entity's business activities are simple or the business is affected to a lesser degree by uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, management may determine that the most appropriate method is to prepare a simple cash flow forecast and budget or other equivalent analysis covering the appropriate assessment period.

A40. Matters that may be relevant to the auditor's evaluation of whether the method selected is appropriate in the context of the applicable financial reporting framework and, if applicable, the appropriateness of changes from the prior period may include:

- Whether management's rationale for the method selected is appropriate;
- When management has determined that different methods result in significantly different outcomes, how management has investigated the reasons for these differences; and
- Whether the changes are based on new circumstances or new information. When this is not the case, the changes may not be reasonable or may be an indicator of possible management bias (also see paragraphs A68–A71).

A41. Matters that may be relevant to the auditor's evaluation of whether calculations are mathematically accurate may include whether management has provided adequate explanations for advanced or complex calculations or processing steps (e.g., multiple formulas or macros).

Significant Assumptions (Ref: Para. 19(b))

A42. Considerations for the auditor's evaluation regarding the significant assumptions on which management's assessment is based may include:

- Management's rationale for the selection of the assumptions;
- Whether the assumptions used are consistent with those used in other areas of the entity's business activities, for example, business prospects, assumptions in strategy documents and assumptions used in making accounting estimates;

- Whether the assumptions used by management in the prior period were reasonable, for example, by comparing the prior year assumptions to the actual outcomes in the current year.
- Whether management considered alternative assumptions to determine the effect of changes in the assumptions on the data used in making the assessment, for example, performing a sensitivity analysis including ‘pessimistic’ and ‘optimistic’ scenarios; and
- Whether a change from prior periods in selecting an assumption is based on new circumstances or new information. When this is not the case, the change may not be reasonable or may be an indicator of possible management bias (also see paragraphs A68–A71).

Example:

The use of automated tools and techniques may assist the auditor when performing sensitivity analysis of management’s assessment of going concern to understand how outcomes are affected by changes in input variables such as discount or growth rates.

Data (Ref: Para. 19(c))

- A43. Matters that may be relevant to the auditor’s evaluation of whether the data is relevant and reliable may include, for example, management’s rationale for selection of the data, how management evaluated whether the data is appropriate, the source of the data, or whether and how the integrity of the data has been maintained through all stages of information processing.
- A44. When using information produced by the entity, ISA (NZ) 500²⁵ requires the auditor to evaluate whether the information is sufficiently reliable for the auditor’s purposes, including as necessary in the circumstances, to obtain audit evidence about the accuracy and completeness of the information and evaluating whether the information is sufficiently precise and detailed for the auditor’s purposes.
- A45. Considerations for the auditor’s evaluation of whether the data is appropriate in the context of the applicable financial reporting framework, and, if applicable, the appropriateness of changes from the prior period, may include:
- Whether the data used is consistent with data used elsewhere by management in the preparation of the financial statements;
 - Whether modifications made to the data are appropriate and supported by management’s rationale; and
 - Whether a change from prior periods in the sources or items of data selected is based on new circumstances or new information. When this is not the case, the change may not be reasonable or may be an indicator of possible management bias (also see paragraphs A68–A71).

Scalability (Ref: Para. 19)

- A46. The nature and extent of the auditor’s procedures may vary depending on the method,

²⁵ ISA (NZ) 500, *Audit Evidence*, paragraph 9

significant assumptions and data used by management to assess the entity's ability to continue as a going concern as well as the nature and circumstances of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Examples:

Method

- The greater the complexity of the method used by management to assess the entity's ability to continue as a going concern, the more likely it is that management may need to apply **specializedspecialised** skills or knowledge in making its assessment. Also, the auditor's procedures to evaluate management's method will likely be more extensive. In such circumstances it may also be appropriate to involve members of the engagement team with **specializedspecialised** skills or knowledge to assist the auditor in applying the audit procedures or evaluating the results of those procedures.
- In contrast, the auditor's procedures may be less extensive when management's method is simpler, such as when the method used includes a simple budget, sales or cash flow forecast and an analysis of the entity's borrowing facilities and requirements.

Significant Assumptions

- When the assumptions used by management inherently have a high level of subjectivity (e.g., assumptions based on internally developed plans for future restructuring of the entity's business units), the auditor's procedures are likely to be more extensive and may include consideration of forward-looking assumptions.
- In contrast, when management uses assumptions commonly used by other marketplace participants, the auditor's procedures to evaluate the assumptions used by management may be less extensive and may include the auditor comparing the assumptions to those obtained directly from the market or a third party.

Data

- When management's assessment of going concern includes large volumes of data from multiple sources, there may be inherent complexity in evaluating the reliability of the data used and the auditor's procedures may employ automated tools and techniques to evaluate the reliability of the data used by management.
- In contrast, when the source of the data is derived from a reputable external information source (e.g., from a central bank or statistical reports from reputable, authoritative sources) the auditor's procedures to consider the reliability of the information may not be as extensive.

Period Beyond Management's Assessment (Ref: Para. 20)

A47. The auditor remains alert to the possibility that there may be known events, scheduled or otherwise, or conditions that will occur beyond the period of assessment used by management that may bring into question the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements. The

degree of uncertainty associated with the outcome of an event or condition increases when the event or condition is further into the future.

- A48. Other than ~~inquiry~~enquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management, which, as required by paragraph 21, would be at least twelve months from the date of approval of the financial statements.
- A49. When events or conditions have been identified in the period beyond management's assessment, depending on the nature and circumstances of such events or conditions, the auditor may consider requesting management to revise the period of assessment for example, by extending it beyond twelve months from the date of approval of the financial statements.

Requesting Management to Extend Its Assessment (Ref: Para. 21)

- A50. Most financial reporting frameworks requiring an explicit management assessment about going concern specify the minimum period for which management is required to take into account all available information.²⁶ Paragraph 21 requires the auditor to request management to extend its assessment period if that period covers less than twelve months from the date of the approval of the financial statements. This requirement also applies when the applicable financial reporting framework does not specify the period to be covered by management's assessment of the entity's ability to continue as a going concern.
- A51. The date of approval of the financial statements for purposes of the ISAs (NZ) is the date on which those with the ~~recognized~~recognised authority determine that all the statements that comprise the financial statements, including the related notes, have been prepared and that those with the recognized authority have asserted that they have taken responsibility for those financial statements.²⁷ The applicable financial reporting framework may use other terms to describe the "date of approval of the financial statements."²⁸
- A52. The auditor may also wish to discuss with management at an early stage of the audit the expected date of approval of the financial statements to assist the auditor in complying with the requirement in paragraph 21. To avoid misunderstandings, the auditor may also include in the engagement letter reference to the expectation that management's assessment of the entity's ability to continue as a going concern covers at least twelve months from the date of approval of the financial statements.²⁹
- A53. Certain entities, for example public sector entities, that are dependent on continued government funding will ordinarily not have certainty of funding beyond the annual budget cycle of governments. Management will therefore need to make assumptions about

²⁶ For example, NZ IAS 48 defines this as a period that should be at least, but is not limited to, twelve months from the end of the reporting period and PBE IPSAS 1 defines this as a period that should be at least, but is not limited to, twelve months from the approval of the financial statements.

²⁷ ISA (NZ) 560, paragraph 5(b)

²⁸ For example, NZ IAS 10, Events After the Reporting Period uses the term "date when the financial statements are ~~authorized~~authorised for issue" and explains that ~~the such date~~process involved in authorising the financial statements for issue will vary depending upon the management structure, statutory requirements and procedures followed in preparing and ~~finalizing~~finalising the financial statements.

²⁹ ISA (NZ) 210, Agreeing the Terms of Audit Engagements, paragraph A24

securing continued funding so that management's assessment covers a period of at least twelve months from the date of approval of the financial statements. In such circumstances the absence of information about a change of government policy may be relevant to the auditor's evaluation of the appropriateness of these assumptions.

Management Unwilling to Extend its Assessment (Ref: Para. 22–23)

- A54. An unwillingness by management to extend its assessment may be a limitation on the audit evidence the auditor is seeking to obtain about the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements. Accordingly, the auditor is required to discuss the matter with management, and where appropriate, with those charged with governance, and ~~inquire~~enquire as to the reasons for management's decision.
- A55. Where management has chosen not to extend the period of assessment, management and those charged with governance may be able to provide additional information to support the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements. For example, this may be the case when the entity has profitable operations and has no liquidity concerns, and management or those charged with governance have not identified any events or conditions that may cast significant doubt beyond the period of assessment they have chosen.
- A56. The level of detail and the formality of management's process to extend its assessment of the entity's ability to continue as a going concern to at least twelve months from the date of approval of the financial statements may vary from entity to entity. In some entities, management may prepare an assessment of the entity's ability to continue as a going concern, supported by detailed analysis, more frequently as part of its ongoing monitoring. In other cases, management may update its assessment from the date of the financial statements to the date of approval of the financial statements through less formal means. As explained in paragraph A35 a less extensive analysis by management to support its assessment may not prevent the auditor from concluding whether management's use of the going concern basis of accounting is appropriate in the circumstances.
- A57. If the auditor is unable to obtain sufficient appropriate audit evidence that supports the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, as a result of management's decision not to extend its assessment, the auditor may conclude that it is appropriate to:
- Revise the assessment of the risks of material misstatement and modify planned audit procedures in accordance with ISA (NZ) 315 (Revised 2019).³⁰ For example, if management's decision is unreasonable in the circumstances, this may indicate a fraud risk factor that requires evaluation in accordance with ISA (NZ) 240 (Revised).
 - Consider management's unwillingness to extend its assessment as a limitation on the audit evidence the auditor has obtained. In accordance with ISA (NZ) 705 (Revised), when the possible effects on the financial statements of the inability to obtain sufficient appropriate audit evidence are pervasive, the auditor disclaims an opinion.

Information Used in Management's Assessment (Ref: Para. 25)

³⁰ ISA (NZ) 315 (Revised 2019), paragraph 37

A58. Paragraphs 20, A27, A30–A31 and A66 describe circumstances that are relevant when it may be necessary for the auditor to request management to revise its assessment.

Evaluating Management’s Plans for Future Actions (Ref: Para. 26–28)

A59. Management’s plans for future actions may mitigate the significance of identified events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. Such plans for future actions, may include plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.

Examples:

- The risk of an entity being unable to make its normal debt repayments may be counterbalanced by management’s plans to maintain adequate cash flows by alternative means, such as by disposing of assets, rescheduling loan repayments, or obtaining additional capital.
- The loss of a principal supplier may be mitigated by management’s actions to secure a suitable alternative source of supply.

A60. The nature and extent of audit evidence to be obtained about management’s intent and ability is a matter of professional ~~judgment~~judgement. The auditor’s procedures to evaluate management’s plans for future actions may include:

- ~~Inquiry~~Enquiry of management about its reasons for a particular course of action.
- Evaluating responses to ~~inquiries~~enquiries of management about the ability to carry out a particular course of action given the entity’s economic circumstances, including the implications of its existing commitments and legal, regulatory or contractual restrictions that could affect the feasibility of management’s actions.
- Evaluating responses to ~~inquiries~~enquiries of management or those charged with governance with audit evidence from sources within or outside the entity.
- Inspecting information about management’s history of carrying out its stated intentions.
- Inspecting written plans and other documentation, including, when applicable, formally approved budgets, ~~authorizations~~authorisations or minutes.
- Inspecting records and documents for support of any planned disposals of assets.
- Inspecting reports of regulatory actions.
- Inspecting correspondence with lenders and finance providers that could affect the feasibility of management’s plans to carry out further actions.
- Evaluating the consistency of significant assumptions in management’s plans with those used in other accounting estimates, or with related assumptions used in other areas of the entity’s business activities,
- Reviewing events occurring subsequent to the date of the financial statements and up to the date of the auditor’s report to identify those that either mitigate or otherwise affect the entity’s ability to continue as a going concern.
- Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with third parties or related parties, including the entity’s owner-manager and evaluating the financial ability of such parties to provide

additional funds.

- When prospective financial information is relevant, performing analytical procedures by comparing:
 - The prospective financial information for recent prior periods with historical results; and
 - The prospective financial information for the current period with results achieved to date.
- When management's plans for future actions are based on information from internal sources, comparing to information from reputable independent sources external to the entity.

A61. In certain circumstances the auditor may consider requesting an external confirmation³¹ of the existence and terms of borrowing facilities between the entity and external finance providers.

Examples:

Requesting an external confirmation may be appropriate when:

- Borrowing facilities are being renewed in the assessment period.
- There are limited financial resources available to the entity beyond those required to continue its operations.
- The entity is dependent on borrowing facilities shortly due for renewal, for example within twelve months from the date of approval of the financial statements.
- There is an indication that previous renewal of borrowing facilities was agreed with difficulty, or the lender has imposed additional conditions as a prerequisite for continued financing.
- There is a significant deterioration in projected cash flows.
- The value of assets granted as security for borrowing is declining.
- The entity has breached the terms of borrowing covenants, or there are indications of potential breaches.

A62. Some finance providers may be reluctant to confirm in writing to an entity or their auditor that borrowing facilities will be renewed. When management's plans for future actions are based on arrangements to maintain or secure borrowing facilities from external finance providers, the lack of an external confirmation may be a limitation on the audit evidence the auditor is seeking to obtain. In such circumstances, the auditor may consider making *inquiries/enquiries* of external finance providers with respect to borrowing facilities, including information about the rationale for their reluctance to confirm in writing that borrowing facilities will be renewed and whether such rationale is specific to the circumstances of the entity. The auditor may also need to *inquire/enquire* of management as to whether there are alternative strategies or sources of financing that may mitigate the significance of identified events or conditions that may cast significant doubt on the

³¹ ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*, paragraph 19

entity's ability to continue as a going concern. If alternative strategies or sources of financing are not available, then a material uncertainty may exist.

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

Intent (Ref: Para. 28)

A63. Where management's plans for future actions include financial support by third parties or related parties, including the entity's owner-manager, whether through the subordination of loans, commitments to maintain or provide additional funding, or guarantees, and such financial support is important to an entity's ability to continue as a going concern, the auditor may need to consider requesting written confirmation from such parties to obtain sufficient appropriate audit evidence about their intent to provide the necessary financial support. Such written confirmation may be in paper form, or by electronic or other medium³² and may include:

- Terms and conditions of the commitment from those parties.
- When applicable, the legality and enforceability of the commitments.
- The period or the specific date to which the parties intend to provide the financial support.

Ability (Ref: Para. 28)

A64. The auditor's procedures to obtain sufficient appropriate audit evidence about the ability of the third parties or related parties, including the entity's owner-manager, to provide the financial support may include:

- ~~Inquiries~~Enquiries about the business rationale for the financial support and the basis on which such support is established (e.g., entity's business plans or other forecasts).
- ~~Inquiries~~Enquiries about the ability to provide the financial support in a timely manner for the entity to meet its obligations.
- ~~Inquiries~~Enquiries of others, such as external or internal legal counsel, or the auditor of the financial statements of a related party in a group audit engagement who may have relevant knowledge and information about the ability of third parties or related parties, including the entity's owner-manager, to provide the financial support.
- Inspecting the records of past financial support provided by the parties when such support was needed.
- Inspecting the latest available audited financial statements or other supporting information to obtain audit evidence about the financial position of the parties to provide the necessary financial support to the entity.

Scalability (Ref: Para. 28)

A65. Financial support by an entity's owner-manager is often important to the ability of smaller or less complex entities to continue as a going concern. Where a smaller or less complex entity is largely financed by a loan from the owner-manager, it may be important that these

³² ISA (NZ) 505, *External Confirmations*, paragraph 6(a)

funds are not withdrawn.

Example:

The continuance of a smaller or less complex entity in financial difficulty may be dependent on the owner-manager subordinating a loan to the entity in ~~favor~~favor of banks or other creditors, or the owner-manager supporting a loan for the entity by providing a guarantee with the owner-manager's personal assets as collateral. In such circumstances, the auditor may obtain appropriate documentary evidence of the subordination of the owner-manager's loan or of the guarantee. Where an entity is dependent on additional support from the owner-manager, the auditor evaluates the owner-manager's ability to meet the obligation under the support arrangement. In addition, the auditor may request written confirmation of the terms and conditions attaching to such support and the owner-manager's intention or understanding.

Information Becomes Known After the Date of the Auditor's Report (Ref: Para. 29)

A66. ISA (NZ) 560 requires the auditor to respond appropriately to facts that become known to the auditor after the date of the auditor's report but before the date the financial statements are issued, that, had they been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report.³³ For example, this may be the case when the auditor is aware of a significant delay between the date of the auditor's report and the date the financial statements will be issued, and the auditor determines that such delay is related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Evaluating the Audit Evidence Obtained and Concluding (Ref: Para. 30–31)

A67. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, in accordance with ISA (NZ) 705 (Revised) the auditor is required to consider the implications for the audit.

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

A68. The susceptibility to management bias, whether intentional or unintentional, may increase with the degree of estimation uncertainty, complexity and subjectivity in management's assessment of the entity's ability to continue as a going concern.

A69. When the auditor identifies indicators of possible management bias, the auditor may need a further discussion with management and may need to reconsider whether sufficient appropriate audit evidence has been obtained that the method, assumptions and data used by management to make its assessment of the entity's ability to continue as a going concern were appropriate.

³³ ISA (NZ) 560, paragraphs 10-13

Examples:

- Management may tend to ignore observable marketplace assumptions or data and instead use their own internally-developed assumptions or select data that yields a more ~~favorable~~favourable outcome.
- There may be changes in the method, assumptions or data from period to period without a clear and appropriate reason for doing so. In contrast, management may not have made changes in the method, assumptions or data from period to period despite significant changes in economic conditions or when other circumstances indicate that a change may be necessary.
- There may be significant influence of an owner-manager or a related party over the determination of the source of the information used in management's assessment of the entity's ability to continue as a going concern.
- Management may be overly optimistic or fail to consider trends and patterns in historical information when evaluating future outcomes about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

A70. When such indicators are identified, this may also affect the auditor's conclusion as to whether the auditor's risk assessment and related responses remain appropriate. The auditor may also need to consider the implications for other aspects of the audit,³⁴ including the need to further question the appropriateness of management's ~~judgments~~judgements in making its assessment of the entity's ability to continue as a going concern. Further, indicators of possible management bias may affect the auditor's conclusion as to whether the financial statements as a whole are free from material misstatement, as discussed in ISA (NZ) 700 (Revised).³⁵

A71. Indicators of possible management bias may also be fraud risk factors and may cause the auditor to reassess whether the auditor's risk assessment, in particular the assessment of the risks of material misstatement due to fraud, and related responses remain appropriate.³⁶ When there is intention to mislead, management bias is fraudulent in nature and the auditor may need to consider whether the bias may represent a material misstatement due to fraud.

Concluding on Whether a Material Uncertainty Exists (Ref: Para. 31)

A72. When events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor's conclusion required by paragraph 31 is dependent on the auditor's evaluation of management's plans for future actions in accordance with paragraphs 26–28. For example, a material uncertainty exists when, based on the audit evidence obtained, the auditor concludes that:

- The outcome of these plans is not likely to be sufficient to mitigate the effects of the identified events or conditions.
- Management's plans may not be feasible in the circumstances.

³⁴ ISA (NZ) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraphs A133-A136

³⁵ ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 11

³⁶ ISA (NZ) 240 (Revised), paragraph ~~2538~~

- Management may not have the intent or ability to carry out specific courses of action.
- Third parties or related parties, including the entity's owner-manager, may not have the intent or ability to provide necessary financial support.

When a material uncertainty exists, the auditor is required to determine whether the financial statements provide the disclosures required by paragraph 33.

Adequacy of Disclosures

Adequacy of Disclosures When No Material Uncertainty Exists (Ref: Para. 32, 34(b)(i))

A73. Some financial reporting frameworks may address disclosures about:

- Principal events or conditions;
- Management's evaluation of the significance of those events or conditions in relation to the entity's ability to meet its obligations;
- Management's plans that mitigate the effect of these events or conditions;
- The assumptions management makes about the future, and other sources of estimation uncertainty; or
- Significant ~~judgments~~**judgements** made by management as part of its assessment of the entity's ability to continue as a going concern.

Example:

In assessing the entity's ability to continue as a going concern, management considers all relevant information about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Having considered all relevant information, including the feasibility and effectiveness of any remedial actions to mitigate the effects of those events or conditions, management may conclude that there is no material uncertainty. For example, in response to declining customer demand and uncertainties faced in the broader economic environment, management may have started executing a turnaround strategy that is demonstrating some evidence of success (e.g., reducing costs, optimising cash flows and preserving liquidity, to support the entity's ability to ~~realize~~**realise** its assets and discharge its liabilities in the normal course of business and continue its operations for the foreseeable future). However, reaching the conclusion that there is no material uncertainty involved significant ~~judgment~~**judgement** by management in estimating the impact and the timing of the future cash flows.

A74. When the financial statements are prepared in accordance with a fair presentation framework, the auditor's evaluation as to whether the financial statements achieve fair presentation includes the consideration of the overall presentation, structure and content of the financial statements, and whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.³⁷

A75. When significant ~~judgments~~**judgements** are made by management in concluding that there is no material uncertainty, in applying paragraph 32 the auditor may determine, depending on the facts and circumstances, that additional disclosures are necessary for the financial

³⁷ ISA (NZ) 700 (Revised), paragraph 14

statements to achieve fair presentation (for fair presentation frameworks) or for the financial statements not to be misleading (for compliance frameworks), as appropriate. Additional disclosures may be necessary, for example, when no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances.

A76. In accordance with ISA (NZ) 705 (Revised),³⁸ the auditor is required to express a modified opinion in the auditor's report when the financial statements do not provide the additional disclosures necessary to achieve fair presentation beyond disclosures specifically required by the applicable financial reporting framework.

Adequacy of Disclosure When a Material Uncertainty Exists (Ref: Para. 33, 35(a))

A77. Paragraph 33 requires the auditor to determine whether the financial statement disclosures address the matters set forth in that paragraph. This determination is in addition to the auditor determining whether disclosures about a material uncertainty, required by the applicable financial reporting framework, are adequate. Disclosures required by some financial reporting frameworks that are in addition to matters set forth in paragraph 33 may include disclosures about:

- Management's evaluation of the significance of the events or conditions relating to the entity's ability to meet its obligations and management's plans for future actions to address these events or conditions; or
- Significant ~~judgments~~**judgements** made by management as part of its assessment of the entity's ability to continue as a going concern.

Some financial reporting frameworks may provide additional guidance regarding management's consideration of disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of their occurrence.

Implications for the Auditor's Report (Ref: Para. 34–38)

A78. The Appendix to this ISA (NZ) provides illustrations of the statements that are required to be included in the auditor's report on the financial statements when New Zealand equivalents to IFRS Accounting Standards is the applicable financial reporting framework. If an applicable financial reporting framework other than New Zealand equivalents to IFRS Accounting Standards is used, the illustrative statements presented in the Appendix to this ISA (NZ) may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

A79. The statements required by paragraphs 34–36 represent the minimum information that is to be presented in the auditor's report in each of the circumstances described. The auditor may provide additional information to supplement the required statements, for example reference to where the respective responsibilities of those with responsibility for the financial statements and of the auditor in relation to going concern are described. The Appendix of ISA (NZ) 700 (Revised)³⁹ includes illustrative wording to be included in the auditor's report in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and of the auditor.

³⁸ ISA (NZ) 705 (Revised), paragraphs 6 and A7

³⁹ ISA (NZ) 700 (Revised), paragraphs 34 and 39

Use of Going Concern Basis of Accounting Is Appropriate – No Material Uncertainty Exists
(Ref: Para. 34)

A80. The auditor may provide additional information in the auditor's report that would supplement the statements required by paragraph 34(a) (e.g., to provide a reference to the relevant accounting policies or the notes in the financial statements).

A81. *[Amended by the NZAuASB]*

NZA81 Illustration 1 of the Appendix to this ISA (NZ) is an example of an auditor's report of an entity other than a **listed FMC reporting entity considered to have a higher level of public accountability** when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting and has concluded that no material uncertainty exists.

A82. *For [Amended by the NZAuASB]*

NZA82 For an audit of financial statements of an entity other than a **listed FMC reporting entity considered to have a higher level of public accountability**, law or regulation may require the auditor to provide the information required by paragraph 34(b). The auditor also may decide that providing the information required by paragraph 34(b) for an entity other than a **listed entity FMC reporting entity considered to have a higher level of public accountability** would be appropriate to enhance transparency for intended users of financial statements in the auditor's report. For example, the auditor may decide to do so **if the auditor determines that there is for other entities, including those that may be of significant public interest in the financial condition of those entities.⁴⁰; for example, because they have a large number and wide range of stakeholders and considering the nature and size of the business. Such entities—Examples of such entities** may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charities.

A83. There may be circumstances when, in the auditor's professional **judgment**, the disclosures of management's **judgments** relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are fundamental to the intended users' understanding of the financial statements. Also, there may be circumstances when the auditor, in addition to including a reference to the disclosure(s) in the financial statements, would consider it appropriate to draw attention to key aspects of them. In such circumstances, the information required by paragraph 34(b) can be supplemented to include aspects of the identified events or conditions disclosed in the financial statements, such as substantial operating losses, available borrowing facilities and possible debt refinancing, or non-compliance with loan agreements, and related mitigating factors or to draw attention to aspects of the disclosures of management's **judgments**.

Description of How the Auditor Evaluated Management's Assessment of Going Concern (Ref: Para. 34(b)(ii), 35(b))

A84. The auditor may describe one or more of the following elements when providing the description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern:

- A brief overview of procedures performed;

⁴⁰ ISA (NZ) 200, paragraph A13A

- An indication of the outcome of the auditor's procedures;
- Aspects of the auditor's response or approach that were most relevant to the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, including the evaluation of management's plans for future actions; or
- Key observations with respect to the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

A85. The amount of detail to be provided in the auditor's report to describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern is a matter of professional ~~judgment~~judgement. When considering the amount of detail to provide in the auditor's report, the auditor may consider the following factors:

- The nature and extent of audit procedures performed to evaluate management's assessment to conclude that no material uncertainty exists.
- The level of subjectivity, complexity and estimation uncertainty involved in management's assessment.

A86. In order for intended users to understand the significance of the description in the context of the audit of the financial statements as a whole, care may be necessary so that language used in the description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern:

- Relates the description directly to the specific circumstances of the entity, while avoiding generic or standardized language.
- Takes into account how the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are addressed in the related disclosure(s) in the financial statements.
- Does not contain or imply discrete opinions on separate elements of the financial statements.
- When applicable, does not obscure that a material uncertainty exists.

A87. The nature and extent of the information provided by the auditor is intended to be balanced in the context of the responsibilities of the respective parties (i.e., for the auditor to provide useful information in a concise and understandable form, while not inappropriately being the provider of original information about the entity). Original information is any information about the entity that has not otherwise been made publicly available by the entity (e.g., has not been included in the financial statements or other information available at the date of the auditor's report, or addressed in other oral or written communications by management or those charged with governance, such as a preliminary announcement of financial information or investor briefings). Such information is the responsibility of the entity's management and those charged with governance.

A88. It is appropriate for the auditor to seek to avoid inappropriately providing original information about the entity in the description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. The description of how the auditor evaluated management's assessment of the entity's ability of going concern is not usually of itself original information about the entity, as it describes the matter in the context of the audit. However, the auditor may consider it necessary to include additional information to explain aspects of the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern to enhance users' understanding.

When such information is determined to be necessary by the auditor, the auditor may encourage management or those charged with governance to disclose additional information, rather than the auditor providing original information in the auditor's report. Management or those charged with governance may decide to include new or enhanced disclosures in the financial statements or elsewhere in the annual report relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in light of the fact that the auditor will communicate how they were addressed in the auditor's report.

A89. *Illustration [Amended by the NZAuASB]*

NZA89 Illustration 2 of the Appendix to this ISA (NZ) is an example of an auditor's report of a listed FMC reporting entity considered to have a higher level of public accountability when:

- The auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting;
- The auditor has concluded that no material uncertainty exists; and
- The financial statements adequately disclose the significant judgments made by management in concluding that there is no material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Use of the Going Concern Basis of Accounting Is Appropriate – A Material Uncertainty Exists
(Ref: Para. 35–36)

A90. The identification of a material uncertainty is a matter that is important to intended users' understanding of the financial statements. The use of a separate section with a heading that includes reference to the fact that a material uncertainty exists alerts intended users to this circumstance.

Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements (Ref: Para. 35)

A91. *[Amended by the NZAuASB]*

NZA91 Illustrations 3 and 4 of the Appendix to this ISA (NZ) are examples of an auditor's report of an entity other than a listed FMC reporting entity considered to have a higher level of public accountability and a listed FMC reporting entity considered to have a higher level of public accountability, respectively, when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting but a material uncertainty exists and disclosure is adequate in the financial statements.

Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements (Ref: Para. 36)

A92. *[Amended by the NZAuASB]*

NZA92 Illustrations 5 and 6 of the Appendix to this ISA (NZ) are examples of auditor's reports for a listed FMC reporting entity considered to have a higher level of public accountability and an entity other than a listed FMC reporting entity considered to have a higher level of public accountability containing qualified and adverse opinions, respectively, when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of

management's use of the going concern basis of accounting but adequate disclosure of a material uncertainty is not made in the financial statements.

Considerations When the Auditor Disclaims an Opinion on the Financial Statements (Ref: Para. 37)

- A93. In situations involving multiple uncertainties that are significant to the financial statements as a whole, the auditor may consider it appropriate, in extremely rare circumstances, to express a disclaimer of opinion. ISA (NZ) 705 (Revised) provides guidance on this issue.⁴¹
- A94. Paragraph 37 prohibits including separate sections on Going Concern or Material Uncertainty Related to Going Concern in the auditor's report when the auditor disclaims an opinion on the financial statements, unless the auditor is otherwise required by law or regulation, as this would be inconsistent with the disclaimer of opinion on the financial statements as a whole and may suggest that the financial statements as a whole are more credible in relation to those matters. When the auditor disclaims an opinion, ISA (NZ) 705 (Revised)⁴² requires the auditor to state in the Basis for Disclaimer of Opinion section of the auditor's report that the auditor is unable to conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Providing such a statement in the Basis for Disclaimer of Opinion section of the auditor's report provides useful information to users that may guard against inappropriate reliance on the financial statements.

Use of Going Concern Basis of Accounting is Inappropriate (Ref: Para. 38)

- A95. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's professional ~~judgment~~ **judgement**, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the requirement in paragraph 38 for the auditor to express an adverse opinion applies regardless of whether or not the financial statements include disclosure of the inappropriateness of management's use of the going concern basis of accounting.
- A96. When the use of the going concern basis of accounting is not appropriate in the circumstances, management may be required, or may elect, to prepare the financial statements on another basis (e.g., liquidation basis). The auditor may be able to perform an audit of those financial statements provided that the auditor determines that the other basis of accounting is acceptable in the circumstances. The auditor may be able to express an unmodified opinion on those financial statements, provided there is adequate disclosure therein about the basis of accounting on which the financial statements are prepared, but may consider it appropriate or necessary to include an Emphasis of Matter paragraph in accordance with ISA (NZ) 706 (Revised)⁴³ in the auditor's report to draw the intended user's attention to that alternative basis of accounting and the reasons for its use.

⁴¹ ISA (NZ) 705 (Revised), paragraph 10

⁴² ISA (NZ) 705 (Revised), paragraph 19

⁴³ ISA (NZ) 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

Written Representations (Ref: Para. 39–40)

A97. ~~The~~ *[Amended by the NZAuASB]*

NZA97.1 The auditor may consider it appropriate to obtain specific written representations in addition to those required in paragraphs 39 and 40. For example, if the auditor obtains written confirmation as described in paragraph A63 from a related party, including the entity's owner-manager, the auditor may still request written representations from ~~management~~ *those charged with governance* as to the validity of the written confirmation.

Communication with Those Charged with Governance (Ref: Para. 41–42)

A98. ISA (NZ) 260 (Revised)⁴⁴ explains that timely communication throughout the audit contributes to the achievement of robust two-way dialogue between those charged with governance and the auditor. The appropriate timing for communications will vary with the circumstances of the engagement, including the significance and nature of the matter, and the action expected to be taken by those charged with governance.

Example:

When events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, prompt communication with those charged with governance may provide them with an opportunity to provide further clarification where necessary. This also enables those charged with governance to consider whether new or enhanced disclosures may be necessary (e.g., in relation to the mitigating factors in management's plans for future actions that are of significance to overcoming the adverse effects of the events or conditions).

A99. The auditor's understanding of how those charged with governance exercise oversight over management's assessment of the entity's ability to continue as a going concern required by paragraph 12(f), may also provide a useful basis to promote effective two-way communication between the auditor and those charged with governance.

A100. Communication with those charged with governance about the auditor's evaluation of management's assessment of the entity's ability to continue as a going concern provides an opportunity for those charged with governance to understand the auditor's work that forms the basis for the auditor's conclusions, and where applicable, the implications for the auditor's report. Examples of matters the auditor may communicate with those charged with governance include:

Examples:

- The auditor's views about the appropriateness of the disclosures in the financial statements in view of the recognition, measurement and presentation requirements of the applicable financial reporting framework.
- Whether management has applied appropriate ~~specialized~~ *specialised* skills or knowledge or engaged appropriate experts in making its assessment of the entity's ability to continue as a going concern.

⁴⁴ ISA (NZ) 260 (Revised), paragraph A49

- Whether the method used by management to assess the entity's ability to continue as a going concern is appropriate in the context of the nature, conditions and circumstances of the entity or the requirements of the applicable financial reporting framework.
- The auditor's views about the reasonableness of assumptions on which management's assessment is based and the degree of subjectivity involved in the development of the assumptions.
- Whether assumptions are consistent with those used for other areas of the entity's business activities and whether management has considered alternative assumptions.
- Indicators of possible management bias in management's judgmentsjudgements and assumptions used in its assessment of the entity's ability to continue as a going concern.
- Significant deficiencies in internal control related to management's assessment of going concern (also see paragraphs A30, A32 and A35).

A101. *[Amended by the NZAuASB]*

NZA101 In the case of an entity other than a listed FMC reporting entity considered to have a higher level of public accountability, in addition to the required statements to be provided in the auditor's report, when appropriate, the auditor may also communicate with those charged with governance additional matters, for example, describing how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.

Reporting to an Appropriate Authority Outside of the Entity (Ref: Para. 43)

A102. When the auditor considers including a separate section with a heading "Material Uncertainty Related to Going Concern" in the auditor's report, or issuing a modified opinion in respect of going concern matters, the auditor may be required by law, regulation or relevant ethical requirements to communicate these matters. The reporting may be to an applicable regulatory, enforcement, supervisory or other appropriate authority outside of the entity. In addition, the auditor may be required by law, regulation or relevant ethical requirements to consider the timing of such reporting prior to the issuance of the auditor's report.

Example:

In some jurisdictions, statutory requirements exist that provide early warning procedures for the auditor to report to a supervisory authority when a material uncertainty exists to enable an appropriate authority outside of the entity to investigate the matter and take action. The early warning procedures may include reporting to a supervisory authority at the point in time when the auditor identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

A103. Law, regulation or relevant ethical requirements may not include requirements for the auditor to report to an appropriate authority outside the entity as described in paragraph

A102. Nevertheless, law, regulation or relevant ethical requirements⁴⁵ may provide the auditor with the right to report the matter to an appropriate authority outside the entity, unless disclosure of the information is precluded by the auditor's duty of confidentiality under law, regulation or relevant ethical requirements. In such circumstances, the auditor may also decide to discuss the matter with those charged with governance.

Examples:

- When auditing the financial statements of a financial institution, the auditor may have the right under law or regulation to discuss with a supervisory authority when a material uncertainty exists.
- Relevant ethical requirements may require the auditor to consider whether further action is needed in the public interest. Such actions may include reporting the matter to an appropriate authority outside of the entity even when there is no legal or regulatory requirement to do so.⁴⁶

A104. Factors the auditor may consider in determining whether it is appropriate to report the matter to an appropriate authority outside the entity, may include:

- Any views expressed by the regulatory, enforcement, supervisory or other appropriate authority outside of the entity.
- Whether reporting the matter would be in the public interest.
- The adequacy and timeliness of actions by management and, where appropriate those charged with governance, to address or mitigate the situation.

A105. Reporting going concern matters to an appropriate authority outside of the entity may involve complex considerations and professional ~~judgments~~~~judgements~~. In those circumstances, the auditor may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a regulator or professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The auditor may also consider obtaining legal advice to understand the auditor's options and the professional or legal implications of taking any particular course of action.

⁴⁵ For example, paragraph R114.3(a) of ~~the International Ethics Standards Board for Accountants' Professional and Ethical Standard 1~~, *International Code of Ethics for Professional Accountants Assurance Practitioners (including International Independence Standards) (IESBA Code New Zealand) (PES 1)* may permit the disclosure of confidential information when there is a legal or professional duty or right to disclose. Paragraph 114.3 A1(b)(iv) of ~~the IESBA Code PES 1~~ explains that there is a professional duty or right to disclose such information to comply with technical and professional standards.

⁴⁶ See, for example, paragraphs R360.19-R360.26 of ~~the IESBA Code PES 1~~.

Appendix

(Ref: Para. A78, A81, A89, A91–A92)

Illustrations of Independent Auditor's Reports Related to Going Concern

- Illustration 1: An auditor's report of an entity other than a ~~listed entity~~ FMC reporting entity considered to have a higher level of public accountability containing an unmodified opinion when the auditor has concluded that no material uncertainty exists.
- Illustration 2: An auditor's report of a ~~listed~~ FMC reporting entity considered to have a higher level of public accountability entity containing an unmodified opinion when the auditor has concluded that no material uncertainty exists and disclosure in the financial statements about the significant ~~judgments~~ judgements made by management in concluding that there is no material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as going concern is adequate.
- Illustration 3: An auditor's report of an entity other than a ~~listed entity~~ FMC reporting entity considered to have a higher level of public accountability containing an unmodified opinion when the auditor has concluded that a material uncertainty exists and disclosure in the financial statements is adequate.
- Illustration 4: An auditor's report of a ~~listed entity~~ FMC reporting entity considered to have a higher level of public accountability containing an unmodified opinion when the auditor has concluded that a material uncertainty exists and disclosure in the financial statements is adequate.
- Illustration 5: An auditor's report of a ~~listed entity~~ FMC reporting entity considered to have a higher level of public accountability containing a qualified opinion when the auditor has concluded that a material uncertainty exists and the financial statements are materially misstated due to inadequate disclosure.
- Illustration 6: An auditor's report of an entity other than a ~~listed entity~~ FMC reporting entity considered to have a higher level of public accountability containing an adverse opinion when the auditor has concluded that a material uncertainty exists and the required disclosures relating to the material uncertainty are omitted in the financial statements.

Illustration 1 – An Auditor’s Report of an Entity Other Than a ~~Listed~~FMC Reporting Entity Considered to have a Higher Level of Public Accountability Containing an Unmodified Opinion When No Material Uncertainty Exists

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

- Audit of a complete set of financial statements of an entity other than a ~~listed~~FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised)⁴⁷ does not apply).
- The financial statements are prepared by management of the entity in accordance with New Zealand equivalents to IFRS Accounting Standards ~~as issued by the International Accounting Standards Board (IASB)~~ (a general purpose framework).
- The terms of the audit engagement reflect the description of ~~management’s responsibility for~~ the responsibilities of those charged with governance the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit ~~are those of the jurisdiction.~~ comprise Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand).
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not yet identified a material misstatement of the other information.
- ~~Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.~~
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

⁴⁷ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements⁴⁸

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, (*or give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand (ISAs) (NZ)). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ~~ethical requirements that are relevant to our audit~~ Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the financial statements in [jurisdiction], New Zealand Auditing and Assurance Standards Board and we have fulfilled our other ethical responsibilities in accordance with ~~these requirements~~ Professional and Ethical Standard 1. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

Going Concern

No Material Uncertainty Related to Going Concern⁴⁹

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report and are not a guarantee as to the Company’s ability to continue as a going concern.

Other Information [or another title if appropriate such as “Information Other than the

⁴⁸ The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

⁴⁹ This additional sub-title may be useful to enhance intended users’ understanding about the nature of the matters addressed in the Going Concern section of the auditor’s report.

Financial Statements and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 1 in Appendix 2 of ISA (NZ) 720 (Revised).]

~~Directors’ Responsibilities of Management and Those Charged with Governance~~ for the Financial Statements⁵⁰

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).⁵¹]

Auditor’s Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

⁵⁰ Throughout these illustrative auditor’s reports, the ~~terms management and those charged with governance~~term directors may need to be replaced by another term that is appropriate in the context of the legal framework ~~in~~for the ~~particular jurisdiction~~entity.

⁵¹ Paragraphs 34 and 39 of ISA (NZ) 700 (Revised) require wording to be included in the auditor’s report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

Illustration 2 – An Auditor’s Report of a ~~Listed Entity~~FMC reporting entity considered to have a higher level of public accountability Containing an Unmodified Opinion When No Material Uncertainty Exists and Disclosure in the Financial Statements About the Significant ~~Judgments~~Judgements Made by Management in Concluding That There is No Material Uncertainty Is Adequate

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

- Audit of a complete set of financial statements of a ~~listed~~FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- The financial statements are prepared by management of the entity in accordance with New Zealand equivalents to IFRS Accounting Standards as issued by the IASB (a general purpose framework).
- The terms of the audit engagement reflect the description of ~~management’s responsibility~~the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit ~~are those of the jurisdiction.~~comprise Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand).
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist.
- Management has disclosed information about significant ~~judgments~~judgements made in concluding that there is no material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern and the disclosures are adequate.
- The auditor has chosen to supplement the required statements in accordance with ISA (NZ) 570 (Revised 2024) by referencing to the sections describing the respective responsibilities of ~~management~~those charged with governance and of the auditor in relation to going concern.
- Key audit matters have been communicated in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not yet identified a material misstatement of the other information.
- ~~Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.~~
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements⁵²

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, (*or give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand (ISAs) (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the ethical requirements that are relevant New Zealand Auditing and Assurance Standards Board, as applicable to our audits of the financial statements in [jurisdiction], of public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements Professional and Ethical Standard 1. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

Going Concern

*No Material Uncertainty Related to Going Concern*⁵³

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

We draw attention to Note X in the financial statements, which describes the uncertainties faced by the Company, the significant judgments made by management in assessing the

⁵² The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

⁵³ This additional sub-title may be useful to enhance intended users' understanding about the nature of the matters addressed in the Going Concern section of the auditor's report.

entity's ability to continue as a going concern and the range of mitigating actions that have been deployed to address the effects on the Company's business activities.

[Description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised 2024).]

Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern. Our responsibilities and the directors' responsibilities ~~of management~~ with respect to going concern are described in the relevant sections of this report.

Key Audit Matters

Key audit matters are those matters that, in our professional ~~judgment~~judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the significant ~~judgments~~judgements made by management in concluding that there is no material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern referred to in the *Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with ISA (NZ) 701.]

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 1 in Appendix 2 of ISA (NZ) 720 (Revised).]

Directors' Responsibilities ~~of Management and Those Charged with Governance~~ for the Financial Statements⁵⁴

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).⁵⁵]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

Report on Other Legal and Regulatory Requirements

⁵⁴ Or other terms that are appropriate in the context of the legal framework ~~of~~for the ~~particular jurisdiction~~entity.

⁵⁵ Paragraphs 34 and 39 of ISA (NZ) 700 (Revised) require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor’s report is [name].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

Illustration 3 – An Auditor’s Report of an Entity Other Than a ~~Listed Entity~~FMC reporting entity considered to have a higher level of public accountability Containing an Unmodified Opinion When a Material Uncertainty Exists and Disclosure in the Financial Statements Is Adequate

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

- Audit of a complete set of financial statements of an entity other than a ~~listed~~FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- The financial statements are prepared by management of the entity in accordance with New Zealand equivalents to IFRS Accounting Standards as issued by the IASB (a general purpose framework).
- The terms of the audit engagement reflect the description of ~~management’s responsibility~~the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit ~~are those of the jurisdiction~~comprise Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand).
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists. The disclosure of the material uncertainty in the financial statements is adequate.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not yet identified a material misstatement of the other information.
- ~~Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.~~
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements⁵⁶

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, (*or give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand (ISAs) (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], New Zealand Auditing and Assurance Standards Board and we have fulfilled our other ethical responsibilities in accordance with these requirements Professional and Ethical Standard 1. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

Material Uncertainty Related to Going Concern

We draw attention to Note X in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note X, these events or conditions, along with other matters as set forth in Note X, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that managements' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

⁵⁶ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ISA [\(NZ\) 720 \(Revised\)](#) – see Illustration 1 in Appendix 2 of ISA [\(NZ\) 720 \(Revised\)](#).]

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~~Directors' Responsibilities of Management and Those Charged with Governance for the Financial Statements~~⁵⁷

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).⁵⁸]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

⁵⁷ Or other terms that are appropriate in the context of the legal framework **of** for the **particular jurisdiction** entity.

⁵⁸ Paragraphs 34 and 39 of ISA (NZ) 700 (Revised) require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

Illustration 4 – An Auditor’s Report of a ~~Listed Entity~~FMC reporting entity considered to have a higher level of public accountability Containing an Unmodified Opinion When a Material Uncertainty Exists and Disclosure in the Financial Statements Is Adequate

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

- Audit of a complete set of financial statements of a ~~listed~~FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- The financial statements are prepared by management of the entity in accordance with New Zealand equivalents to IFRS Accounting Standards as issued by the IASB (a general purpose framework).
- The terms of the audit engagement reflect the description of ~~management’s responsibility~~the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit ~~are those of the jurisdiction~~comprise Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand).
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists. The disclosure of the material uncertainty in the financial statements is adequate.
- Key audit matters have been communicated in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not yet identified a material misstatement of the other information.
- ~~Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.~~
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements⁵⁹

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, (*or give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand (ISAs) ~~(NZ)~~). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the ~~ethical requirements that are relevant~~ New Zealand Auditing and Assurance Standards Board, as applicable to our audits of the financial statements ~~in [jurisdiction], of public interest entities,~~ and we have fulfilled our other ethical responsibilities in accordance with ~~these requirements~~ Professional and Ethical Standard 1. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

Material Uncertainty Related to Going Concern

We draw attention to Note X in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY.

[Description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised 2024).]

As stated in Note X, these events or conditions, along with other matters as set forth in Note X, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

⁵⁹ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that managements' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Key Audit Matters

Key audit matters are those matters that, in our professional ~~judgment~~judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with ISA (NZ) 701.]

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 1 in Appendix 2 of ISA (NZ) 720 (Revised).]

~~Directors' Responsibilities of Management and Those Charged with Governance for the Financial Statements~~⁶⁰

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).⁶¹]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is [name].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

⁶⁰ Or other terms that are appropriate in the context of the legal framework ~~of~~for the ~~particular jurisdiction~~entity.

⁶¹ Paragraphs 34 and 39 of ISA (NZ) 700 (Revised) require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

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Illustration 5 – An Auditor’s Report of a ~~Listed Entity~~FMC reporting entity ~~considered to have a higher level of public accountability~~ Containing a Qualified Opinion When a Material Uncertainty Exists and the Financial Statements Are Materially Misstated Due to Inadequate Disclosure

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

- Audit of a complete set of financial statements of a ~~listed~~FMC reporting entity ~~considered to have a higher level of public accountability~~ using a fair presentation framework. The audit is not a group audit (i.e., ISA ~~(NZ)~~ 600 (Revised) does not apply).
- The financial statements are prepared by management of the entity in accordance with New Zealand equivalents to IFRS Accounting Standards ~~as issued by the IASB~~ (a general purpose framework).
- The terms of the audit engagement reflect the description of ~~management’s responsibility~~the responsibilities of those charged with governance for the financial statements in ISA ~~(NZ)~~ 210.
- The relevant ethical requirements that apply to the audit ~~are those of the jurisdiction~~, comprise Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand).
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists. Note Y to the financial statements discusses the magnitude of financing arrangements, the expiration and the total financing arrangements; however the financial statements do not include discussion on the impact or the availability of refinancing or characterize this situation as a material uncertainty.
- The financial statements are materially misstated due to the inadequate disclosure of the material uncertainty. A qualified opinion is being expressed because the auditor concluded that the effects on the financial statements of this inadequate disclosure are material but not pervasive to the financial statements.
- Key audit matters have been communicated in accordance with ISA ~~(NZ)~~ 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and the matter giving rise to the qualified opinion on the financial statements also affects the other information.
- ~~Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.~~
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements⁶²

Qualified Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, except for the incomplete disclosure of the information referred to in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects (*or give a true and fair view of*), the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Qualified Opinion

As discussed in Note Y, the Company's financing arrangements expire and amounts outstanding are payable on March 19, 20X2. The Company has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this matter.

We conducted our audit in accordance with International Standards on Auditing (New Zealand (ISAs) (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the ethical requirements that are relevant New Zealand Auditing and Assurance Standards Board, as applicable to our audits of the financial statements in [jurisdiction] of public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements Professional and Ethical Standard 1. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

Material Uncertainty Related to Going Concern

As described in the *Basis for Qualified Opinion* section of our report, a material uncertainty exists that has not been adequately disclosed in the financial statements.

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that managements' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

⁶² The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

Key Audit Matters

Key audit matters are those matters that, in our professional ~~judgment~~**judgement**, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section and in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with ISA (NZ) 701.]

~~Directors' Responsibilities of Management and Those Charged with Governance~~ for the Financial Statements⁶³

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).⁶⁴]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is [name].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

⁶³ Or other terms that are appropriate in the context of the legal framework ~~offor~~ **for** the ~~particular jurisdiction~~**entity**

⁶⁴ Paragraphs 34 and 39 of ISA (NZ) 700 (Revised) require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

Illustration 6 – An Auditor’s Report of an Entity Other Than a Listed FMC Reporting Entity Considered to have a Higher Level of Public Accountability Containing an Adverse Opinion When a Material Uncertainty Exists and Is Not Disclosed in the Financial Statements

For purposes of the illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a listed FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- The financial statements are prepared by management of the entity in accordance with New Zealand equivalents to IFRS Accounting Standards as issued by the IASB (a general purpose framework).
- The terms of the audit engagement reflect the description of management’s responsibility the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction, comprise Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand).
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists. The financial statements omit the required disclosures relating to the material uncertainty. An adverse opinion is being expressed because the effects on the financial statements of such omission are material and pervasive.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and the matter giving rise to the adverse opinion on the financial statements also affects the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements⁶⁵

Adverse Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, because of the significance of the omission of the information mentioned described in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly (*or do not give a true and fair view of*), the financial position of the Company as at December 31, 20X1, and of its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Adverse Opinion

The Company's financing arrangements expired and the amount outstanding was payable on December 31, 20X1. The Company has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this fact.

We conducted our audit in accordance with International Standards on Auditing (New Zealand (ISAs) (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], New Zealand Auditing and Assurance Standards Board and we have fulfilled our other ethical responsibilities in accordance with these requirements Professional and Ethical Standard 1. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

Material Uncertainty Related to Going Concern

As described in the *Basis for Adverse Opinion* section of our report, a material uncertainty exists that has not been disclosed in the financial statements.

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that managements' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report

⁶⁵ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

and are not a guarantee as to the Company’s ability to continue as a going concern.

Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 7 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 7 would be customized to describe the specific matter giving rise to the adverse opinion that also affects the other information.]

~~Directors’ Responsibilities of Management and Those Charged with Governance for the Financial Statements~~⁶⁶

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).⁶⁷]

Auditor’s Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

⁶⁶ Or other terms that are appropriate in the context of the legal framework ~~of~~for the particular jurisdictionentity.

⁶⁷ Paragraphs 34 and 39 of ISA (NZ) 700 (Revised) require wording to be included in the auditor’s report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

CONFORMING AMENDMENT

A. CONFORMING AMENDMENT TO XRB Au 1 *APPLICATION OF AUDITING AND ASSURANCE STANDARDS*

Appendix 2

...

This appendix lists the International Standards on Auditing (New Zealand) to be applied in conducting audits of historical financial information.

...

ISA (NZ) 570 (Revised 2024) Going Concern

...

DRAFT

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement accompanies but is not part of ISA (NZ) 570 (Revised 2024).

Conformity with International Standards on Auditing

This International Standard on Auditing (New Zealand) (ISA (NZ)) conforms to International Standard on Auditing ISA 570 (Revised 2024) *Going Concern*, issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Foundation for Ethics and Audit (IFEAA).

Paragraphs that have been added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

The following paragraphs have been added to ISA (NZ) 570 (Revised 2024):

- For the purposes of this ISA (NZ), a reference to “management” is taken to mean “management, and where appropriate, those charged with governance”. (Ref: Para NZ1.2)
- 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. In these cases the process of financial reporting is usually delegated to management, but the responsibility for such matters remains with those charged with governance. In applying this standard the auditor shall apply professional judgement, using knowledge of the legal requirements and corporate governance practices of New Zealand as well as the particular engagement circumstances, to determine whether the requirements of this standard apply to management or those charged with governance or both. (Ref: Para. NZ1.3)

The following requirements have been amended in ISA (NZ) 570 (Revised 2024):

- The ISAs require the auditor to obtain written representations from management. The ISAs (NZ) require written representations from those charged with governance. Paragraphs where references to “management” have been amended have been labelled as NZ paragraphs.
- This ISA (NZ) incorporates terminology and definitions used in New Zealand. References to “listed entities” have been amended to “FMC reporting entities considered to have a higher level of public accountability”. Paragraphs where references to “listed entities” have been amended to refer to FMC reporting entities considered to have a higher level of public accountability have been labelled as NZ paragraphs.

Compliance with this ISA (NZ) enables compliance with ISA 570 (Revised 2024).

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 570 *Going Concern*.

ASA 570 conforms to ISA 570 (Revised 2024). ASA 570 includes Australian specific paragraphs and illustrative reporting examples that reflect the requirements of the Corporations Act 2001. (Aus 3.1 and Appendix 2)

Consultation Paper

Collective Investment Vehicles and Pension Funds – Auditor Independence

MARCH 2025

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About the IESBA

The [International Ethics Standards Board for Accountants](#)[®] (IESBA[®]) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting high-quality, international ethics (including independence) standards as a cornerstone to ethical behavior in business and organizations, and to public trust in financial and non-financial information that is fundamental to the proper functioning and sustainability of organizations, financial markets and economies worldwide.

Along with the [International Auditing and Assurance Standards Board](#) (IAASB), the IESBA is part of the [International Foundation for Ethics and Audit](#). The [Public Interest Oversight Board](#) (PIOB) oversees IESBA and IAASB activities and the public interest responsiveness of the standards.

REQUEST FOR COMMENTS

This Consultation Paper was developed and approved by the International Ethics Standards Board for Accountants® (IESBA®) for the purpose of informing its thinking on the independence considerations with respect to audits of Collective Investment Vehicles and Pension Funds. **Comments are requested by June 30, 2025.**

Respondents are asked to submit their comments electronically through the IESBA website, using the “Submit a Comment” link. Please submit comments in both PDF and Word files. First-time users must register to use this feature. All comments will be considered a matter of public record and will be posted on the IESBA website. Although the IESBA prefers that comments are submitted via its website, comments can also be sent to Ken Siong, IESBA Program and Senior Director, at kensiong@ethicsboard.org.

This publication may be downloaded from the IESBA website: www.ethicsboard.org. The approved text is published in the English language.

EXECUTIVE SUMMARY

The IESBA is issuing this Consultation Paper (CP) to solicit feedback from stakeholders regarding auditor independence considerations for audits of collective investment vehicles (CIVs) and pension funds (hereinafter referred to as “Investment Schemes” or “Schemes”). This feedback will inform the IESBA Project Team’s report and recommendations to the IESBA as to whether revisions to the *International Code of Ethics for Professional Accountants*TM (including *International Independence Standards*TM) (the Code) are warranted to ensure that the Code remains robust and fit for purpose in addressing auditor independence in these contexts.

Investment Schemes enable investors to pool their assets to distribute the associated risks and benefits of their investments. Unlike more conventional corporate structures, such as companies, Investment Schemes typically do not employ their own staff and instead rely on other parties to provide functions or services to the Schemes that management or employees would provide in a conventional corporate structure. These other parties can range from those offering routine and mechanical services, like bookkeeping, to those with significant responsibilities related to the Scheme’s policies and operations, such as making investment decisions and managing financial records. This CP highlights the public interest issues and risks associated with these Schemes and stresses the significance of auditor independence when they audit the Schemes.

The definitions of “audit client” and “related entity” in the Code are fundamental when determining independence from the audit client. If an entity is not a related entity as defined in the Code, it might not be included in the auditor’s independence assessment. In such a case, auditors should apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to their independence. Notwithstanding the application of the conceptual framework, the Project Team is requesting stakeholders’ feedback regarding whether there is sufficient guidance in the Code with respect to independence considerations vis-à-vis parties, other than related entities as defined in the Code, that are (a) responsible for decision-making and operation of the Scheme, (b) able to substantially affect the financial performance of the Scheme, or (c) in a position to exert significant influence over the preparation of the Scheme’s accounting records or financial statements (“Connected Parties”).

The Project Team researched various jurisdictions to better understand the global context of Investment Schemes and their relationships with other parties. This research included an analysis of the U.S. Securities and Exchange Commission’s (SEC) independence rules on investment company complexes (ICCs). Although the independence rules for ICCs are tailored specifically to the United States, the Project Team evaluated the potential relevance of these rules to the work stream. Based on this research and stakeholder outreach, the Project Team found that the Code’s definitions of “audit client” and “related entity” would not necessarily capture Connected Parties.

Request for Comments

The IESBA is seeking stakeholders’ views on the provisions in the Code and the clarity of their application to audits of Investment Schemes where Connected Parties are involved with such Schemes, thereby safeguarding the public interest and supporting consistent application of the Code’s principles. This includes evaluating whether certain interests, relationships, or circumstances between the auditor of an Investment Scheme and those Connected Parties pose any threats to the auditor’s independence.

The IESBA recognizes that in some jurisdictions, in order to fulfill fiduciary duties to act in the best interest of the Scheme’s beneficiaries, certain parties are required or at least expected to appoint auditors who are

independent from Investment Schemes and certain third parties This is because the independence of the Scheme's auditor is crucial to ensure that the interests of the Scheme's beneficiaries are not compromised due to the auditor's interests, relationships or circumstances with other parties. The Project Team encourages feedback from the investment community on the matters addressed in this CP.

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I. Introduction

1. In 2021, the IESBA issued an exposure draft, [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#) (PIE ED), to address concerns expressed by regulators and other stakeholders regarding the inconsistent interpretation and application of the PIE definition in the Code globally. The PIE ED contained proposed mandatory PIE categories, which included collective investment vehicles (CIVs) and entities that provide post-employment benefits (PEBs).
2. After reflecting on stakeholders' feedback on the PIE ED regarding the wide diversity in structure, governance and size of such arrangements, the IESBA removed CIVs and PEBs from the mandatory PIE categories. This was on the grounds that including them would impose a disproportionate burden on local regulators and jurisdictional standard setters to refine those CIV and PEB categories. However, with the concurrence of the Public Interest Oversight Board (PIOB), the IESBA committed to undertake a holistic review of CIVs, PEBs and investment company complexes (ICCs) from an auditor independence perspective, given questions regarding the application of the "related entity" concept in the Code to such investment vehicles or structures.
3. This Consultation Paper (CP) has been issued by the IESBA to solicit feedback from stakeholders regarding independence considerations for audits of CIVs and pension funds (hereinafter referred to as "Investment Schemes" or "Schemes"). The Project Team has concentrated on CIVs accessible to the general public and those pension funds with characteristics similar to CIVs. This focus is due to the higher potential risk of financial harm these Schemes might pose to the public in case of a financial failure, reinforcing the importance of robust and independent audits of such Schemes. Sophisticated investment vehicles, like private equity or hedge funds, have not been scoped in.
4. This CP is asking questions about the application of the related entity concept in the IESBA [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code) with respect to audits of Investment Schemes and its adequacy to ensure the necessary independence of the auditor of the Scheme. The Project Team observed that the structure of an Investment Scheme is different from that of a conventional corporate structure, where decision-making and operational responsibilities are handled internally. In comparison, Investment Schemes frequently engage other parties to perform roles like those managed by in-house teams in a conventional corporate structure.
5. This consultation's emphasis is on Investment Schemes whose financial condition holds substantial public interest concern due to the potential implications their financial health may have on a broad range of stakeholders. Although the Project Team has not identified any Investment Scheme financial failure in which an auditor's lack of independence was a contributing factor, it has noted stakeholders' interest arising from the substantial amount of funds invested in them and, therefore, the need to ensure that the necessary independence provisions apply.
6. A primary objective of this work stream¹ is to gain a comprehensive understanding of the relationships between Investment Schemes and their trustees, managers, and advisors. This will help the IESBA determine whether the auditor independence standards, particularly the definition of a "related entity" in Part 4A of the Code, adequately address the independence implications arising from certain

¹ See paragraph 4 of the Project Team's [Terms of Reference](#).

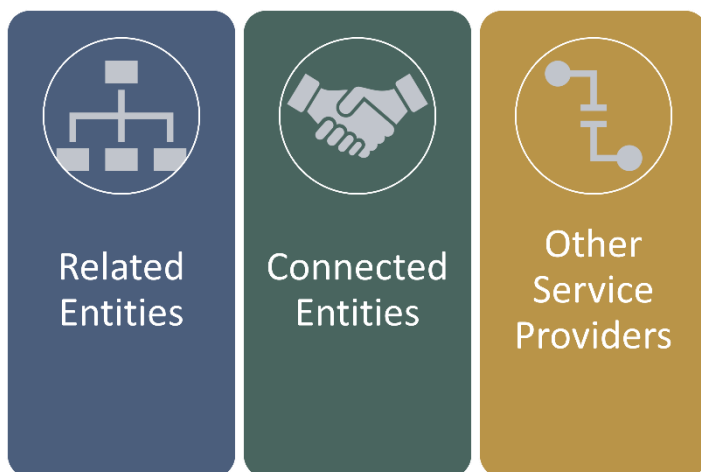
interests, relationships or circumstances between a Scheme’s auditor and such parties. In terms of independence, an auditor should not have the ability, either directly or indirectly, to inappropriately influence information in the financial statements of the audit client. Otherwise, there is a risk that the auditor’s integrity, objectivity, and professional skepticism might be compromised.

7. The work stream’s objectives also include reviewing the U.S. Securities and Exchange Commission’s (SEC) independence rules on investment company complexes (ICCs). While the independence rules for ICCs are specific to the United States, the Project Team continues to consider whether aspects of these rules may be relevant to this work stream. This might involve establishing new terms and definitions or clarifying which parties should be considered as related entities of an Investment Scheme audit client for independence purposes.²
8. To better understand the global context of Investment Schemes, the Project Team conducted comprehensive research across various jurisdictions. In addition to performing extensive desktop research, the Project Team circulated questionnaires to stakeholders and conducted interviews with relevant parties. This approach provided deeper insights into how different jurisdictions address potential auditor independence issues related to the Schemes. Certain jurisdictions have responded to these issues in various ways. For example, the United States and Australia have established regulations that include certain other parties as part of the audit client definition, thereby scoping them within the independence requirements.
9. Upon examining the circumstances further, the Project Team noted that the Code’s definitions of “audit client” and “related entity” might not capture certain parties³ that are (a) responsible for decision-making and operation of the Scheme, (b) able to substantially affect the financial performance of the Scheme, or (c) in a position to exert significant influence over the preparation of the Scheme’s accounting records or financial statements (hereinafter referred to as “Connected Parties”). Although the Code’s Conceptual Framework is designed to guide an auditor in identifying, evaluating and addressing independence threats, Part 4A of the Code, which contains the International Independence Standards for audit engagements, does not explicitly include provisions for assessing independence from a Connected Party. An Investment Scheme might also use other service providers that do not meet the definition of related entity under the Code and do not have the same level of responsibility or involvement in the Scheme as a Connected Party.

² Appendix 2 includes further information on ICCs.

³ The audit client is an entity for which a firm conducts an audit engagement. When the client is a publicly traded entity (PTE), in accordance with paragraphs R400.22 and R400.23 of the Code, audit client always includes its related entities. When the client is not a PTE, audit client includes those related entities over which the client has direct or indirect control. See *Section III. Application of the Code to Investment Schemes* for discussion on this point. (References to specific paragraphs in the Code are to the 2024 Code.)

Diagram 1: Other Parties to Investment Schemes

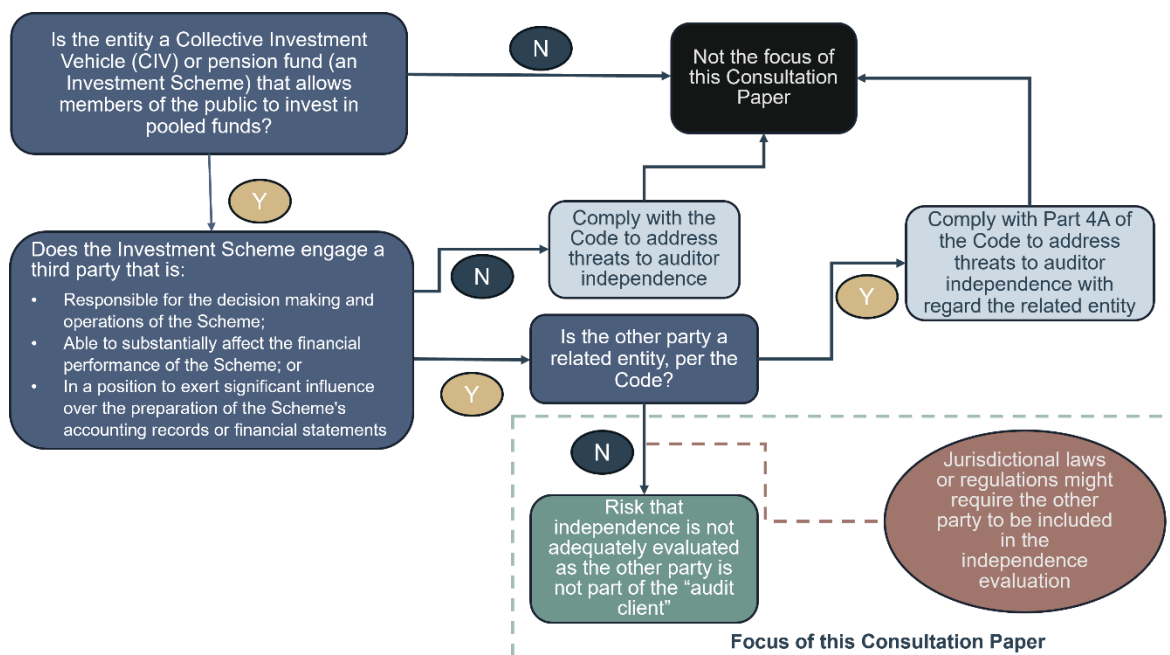


10. This perceived gap may lead to potential threats to independence not being identified when auditing Investment Schemes that involve a Connected Party. The following scenarios illustrate circumstances that may lead to elevated risks due to a lack of explicit provisions in the Code on how to apply the conceptual framework with respect to audits of Investment Schemes:
- If a CIV's external fund manager engages an audit⁴ firm to help develop its transaction processing system, the auditor might face a self-review threat when auditing the Investment Scheme that depends on financial information which has been generated by the fund manager's system. This situation could undermine the auditor's ability to objectively evaluate the CIV's financial information due to biases related to the auditor's association with the fund manager's transaction processing system.
 - When the investment adviser has a close relationship with the auditor, the auditor might face a self-interest threat or an intimidation threat. For example, if the auditor's spouse holds a decision-making role with the investment advisor, this relationship may allow the investment advisor to exert influence over the auditor's assessment of evidence or reporting of unfavorable information.
11. The following are examples of how the level of potential independence threats might be reduced by external conditions or legal or regulatory requirements for audits of Investment Schemes that engage Connected Parties:
- By scoping in as part of regulation certain services or relationships applicable to Investment Schemes that might threaten independence. For example, the US SEC, and other local financial market authorities, have enacted industry-specific regulations to include investment advisors as part of the audit client.
 - In some jurisdictions, in order to fulfil fiduciary duties to act in the best interest of the Scheme's beneficiaries, certain parties are required or at least expected to appoint auditors who are independent from Investment Schemes, and certain third parties. They also request auditors

⁴ The terms "auditor" and "audit firm" are interchangeable when considering services, interests or relationships with respect to other parties.

to implement necessary controls to maintain their independence for this purpose. These may serve as cross checks against interests, relationships or circumstances with the Schemes' auditors that might create threats to auditor independence.

- In other jurisdictions, the supervisory authority for the Investment Scheme may object to the authorization or registration of the Investment Scheme whose auditor does not fulfill all the independence requirements.
12. The Project Team recognizes the complexity and diversity of Investment Schemes, which may lead to certain challenges when assessing auditor independence. The following flowchart (**Flowchart 1**) illustrates the potential gap in the Code with respect to Investment Schemes.



II. Investment Scheme Structures

13. The Project Team has focused on CIVs accessible to the general public and those pension funds with characteristics similar to CIVs, because they have the highest potential risk of financial harm to the general public in case of a financial failure. The Project Team also recognizes that there can be notable differences between CIVs and pension funds.
14. The Investment Schemes discussed in this CP have the following characteristics:
- They allow members of the public to invest through pooled funds; and
 - They engage other parties to perform functions or services for the Schemes, such as making investment decisions or managing accounting and financial records.

The public interest with respect to the amount and volume of Investment Schemes is highlighted below. Furthermore, the governance structures and relationships with other parties with respect to Investment Schemes can vary based on the jurisdiction in which they operate, the investment purpose or strategy, and the structure utilized. These factors contribute to the challenges auditors

might face when identifying, evaluating and addressing threats to independence for these types of audits.

CIVs

15. According to the [Investment Company 2024 Factbook](#) as of year-end 2023, worldwide capital markets, as measured by the value of equity and debt securities outstanding, totaled US\$257.4 trillion. Regulated funds' net assets were 27%, or US\$68.9 trillion, of the total. The International Investment Funds Association (IIFA), which collected data on 46 jurisdictions, typically defines regulated funds as collective investment pools that are substantively regulated, open-end investment funds. In the past decade, the net sales of regulated funds worldwide have totaled US\$19.9 trillion from 139,982 regulated funds.

Pension Funds

16. Significant funds are invested in pension plans around the world. The discussion below covers the EU and the US for illustrative purposes. According to a report from the European Capital Markets Institute,⁵ at the end of 2023, EU pension funds' total assets (EUR 2.7 trillion) represented about 25% of the EU's GDP. The assets are mainly allocated to investment funds (38%), government bonds (22%), equity (18%) and corporate bonds (12%). Further analyses of investment funds revealed that they are primarily composed of equity funds (33%), debt funds (26%), real estate funds (14%) and "other" funds (13%). Most of the private equity funds are classified as "other" if they largely invest in unlisted companies (e.g. via loans or participation).
17. The Prudent person principle,⁶ as established in EU Directive 2009/138/EC, has led to pension funds allocating a good portion of their money to fixed-income assets. The principle states that, in the case of a conflict of interest, entities that manage the asset portfolios for insurance/reinsurance companies "shall ensure that the investment is made in the best interest of policy holders and beneficiaries." Furthermore, the EU's Institutions for Occupational Retirement Provision (IORP) II's Article 19 encourages pension fund investments to be on regulated markets.
18. With respect to the US, approximately US\$13.1 trillion is held in private sector pension funds, while US\$14.5 trillion is held in pension plans for government employees.⁷ There are more than 5,000 public sector retirement systems totaling US\$5.5 trillion in assets. CalPERS, one of the largest public sector funds, had total contributions of US\$31.3 billion and investment income of US\$44.2 billion for the 2023-2024 financial year.⁸ Due to the significant impact these plans have on the public, there is significant regulation.

⁵ https://www.ecmi.eu/sites/default/files/no_90_-_closing_the_gaping_hole_in_the_capital_market_for_eu_start-ups_-_the_role_of_pension_funds.pdf

⁶ https://www.eiopa.europa.eu/rulebook/solvency-ii/article-2219_en

⁷ <https://crsreports.congress.gov/product/pdf/IF/IF12117/2>

⁸ [Facts at a Glance, Finances FY 2023-24](#)

Governance Structures

19. In June 2006, the Technical Committee of the International Organization of Securities Commissions (IOSCO) issued its final report on the Examination of Governance for Collective Investment Schemes (CIS).⁹ The report highlighted the results of a survey conducted of IOSCO's member jurisdictions, noting the various entities and legal structures that existed and how these might create differences in member jurisdictions' approaches to CIS governance issues. As a result of the differences, it was agreed that the overarching principle of governance would be independent review and oversight of the CIS operator's fiduciary duties. The report specifically noted that auditors of CIS can play a role in the governance framework, contributing to the goal of protecting investors' interests.
20. In line with the objective of the IESBA's work stream, the Project Team reached out to various jurisdictions to better understand the global context of Investment Schemes and their relationships with parties such as trustees, managers and advisors. This research identified governance and structural differences across jurisdictions and that Investment Schemes generally do not have their own employees. Instead, day-to-day operations, as well as the investment and management of investors' funds, are typically carried out by, or outsourced to, other parties.
21. Certain oversight and management functions typically associated with corporate governance within an organization are often performed externally to the Investment Scheme itself. This construct is consistent with the IOSCO Technical Committee's definition of governance for CISs, which recognizes "*the differences between the nature and purpose of CIS and the operating companies in which they invest*" and "*the fact that CIS are structured and regulated differently.*"
22. This research highlights that Investment Schemes are established under various legal frameworks and are subject to different jurisdiction-specific legal and regulatory requirements. Consequently, there is considerable variation in the organizations that are responsible for oversight and management of these Schemes. [Appendix 1](#) (Table 1) provides summaries of the different governance models and legal frameworks applicable to CIVs based on this research.

Roles and Responsibilities of Other Parties

23. The Project Team found that Investment Schemes often engage other parties to participate in activities and make decisions regarding the acquisition, deployment and control of resources, as well as ensuring the effectiveness of internal controls. Actuaries, valuation experts, and fund sponsors may also be engaged as other parties. Certain activities related to these functions may be further outsourced by these other parties.
24. [Appendix 1](#) (Table 2) provides examples of the various roles and responsibilities applicable to CIVs. It is important to differentiate between other parties that provide routine and mechanical services and those that are (a) responsible for decision-making and operation of the Investment Scheme, (b) able to substantially affect its financial performance, or (c) in a position to exert significant influence over the preparation of the Scheme's accounting records or financial statements (i.e., Connected Parties).

⁹ Refer page 3 of the Report of the Technical Committee of the IOSCO [Examination of Governance for Collective Investment Funds Final Report Part I](#).

25. Given the impact that Connected Parties have on the Investment Schemes, the Project Team has been evaluating whether certain interests, relationships, or circumstances between the auditor and Connected Parties involved with the Scheme could pose any threats to the auditor's independence when auditing the Scheme. The Project Team recognizes that there can be different types of Investment Scheme structures around the world. Notwithstanding the diversity of Scheme structures, there is an argument that Connected Parties should be included in the auditor's identification, evaluation and addressing of the threats to independence. In contrast to the audit of a conventional corporate structure, specific provisions within the Code address the auditor's independence, particularly in relation to the client's management.¹⁰

III. Application of the Code to Investment Schemes

26. The Code provides that it is in the public interest that professional accountants (PAs) be independent when performing audit engagements.¹¹ To meet this objective, paragraphs 400.6, R400.18 and R400.19 establish that the Code requires firms to comply with the fundamental principles and apply the conceptual framework.¹² Part 1 of the Code provides a path for auditors to consider facts and circumstances that may present threats to independence when auditing an Investment Scheme. Independence is linked to the principles of objectivity and integrity, which are fundamental to audit quality.
27. Several provisions in Part 1 of the Code require PAs to be straightforward and honest in all professional and business relationships, as well as to exercise professional or business judgment without being compromised. Paragraph R112.2 of the Code prohibits a PA from undertaking "a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity."
28. Further, Part 4A of the Code outlines how PAs should apply the conceptual framework to maintain independence.¹³ The provisions in Part 4A set out considerations relevant to applying the conceptual framework to specific situations or circumstances with respect to the audit client. For example, Part 4A:
- Provides guidance for the auditor on how to identify, evaluate and address threats to independence in specific circumstances. The sections in Part 4A of the Code set out specific requirements and application material relevant to applying the conceptual framework in various circumstances, for example, with respect to:
 - Holding a financial interest in an audit client that might create a self-interest threat.¹⁴
 - A close business relationship with an audit client or its management that might create a self-interest or intimidation threat.¹⁵

¹⁰ For example, refer to paragraph R520.4 of the Code.

¹¹ Paragraphs 400.1 and R400.18 of the Code

¹² Section 120, *The Conceptual Framework*

¹³ Paragraphs 400.6 and R400.19 of the Code

¹⁴ Section 510, *Financial Interests*

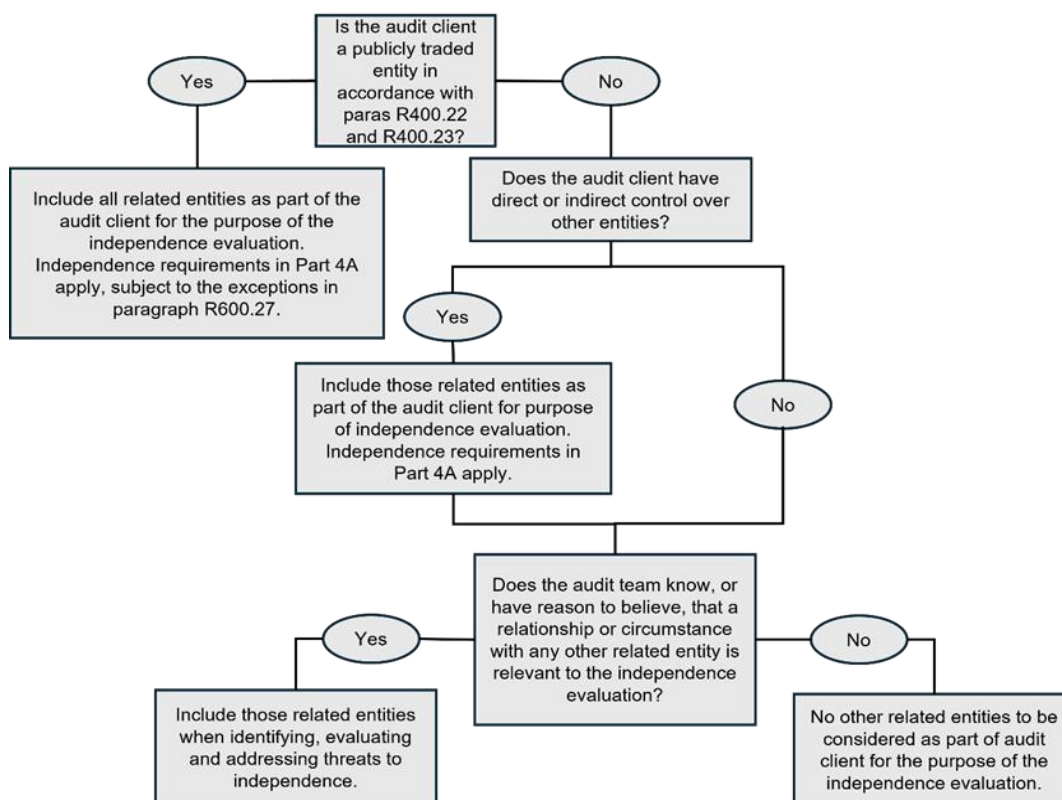
¹⁵ Section 520, *Business Relationships*

- Providing a range of non-assurance services to a firm's audit client that might create a self-review threat.¹⁶
- Establishes prohibitions for certain services, interests, relationships, or circumstances related to the audit client when threats cannot be eliminated, and safeguards cannot be applied to reduce the threats to an acceptable level.
- Includes specific provisions to ensure that the auditor maintains their independence from the audit client, particularly in relation to the client's management or employees who have significant influence over the client's accounting records or financial statements.¹⁷

Related Entities Under the Code

29. The following provides an analysis of other parties to an Investment Scheme that are related entities and, by extension, whether they are part of the audit client¹⁸ for the purpose of assessing independence.

Flowchart 2: Audit client and related entities under paragraph R400.27 of the Code



¹⁶ Section 600, *Non-assurance Services*

¹⁷ For example, paragraphs R520.4, R521.5 and R522.3 of the Code, among others

¹⁸ In accordance with the definition of audit client in the Glossary and paragraph R400.27 of the Code

30. Before applying the sections of the Code that are applicable to assessing independence, the auditor must determine who the audit client is. To guide this assessment, the scope of application of the independence provisions in Part 4A of the Code is determined by applying the definitions of “audit client” and “related entities,”¹⁹ taking into consideration whether the client is a “publicly traded entity.”²⁰ The element of control, or significant influence through direct financial interest,²¹ is fundamental in determining whether an entity should be classified as a related entity. Flowchart 2 (above) sets out the process by which auditors consider whether a related entity should be scoped in with the audit client for the purpose of evaluating independence.
31. All the requirements in Part 4A of the Code apply to the audit client (including its relevant “downstream” related entities), including prohibitions from providing certain non-assurance services to, or assuming management responsibility for, those related entities.²² However, paragraph R600.27 of the Code allows an auditor to provide certain non-assurance services to, or assume management responsibility for, any relevant “upstream” or “sister” related entities²³ of the audit client provided that:
- The auditor does not express an opinion on the related entity’s financial statements;
 - The auditor does not assume management responsibility for the entity on whose financial statements the auditor will express an opinion;
 - The services do not create a self-review threat; and
 - The auditor addresses other threats created by such services that are not at an acceptable level.

¹⁹ The Code defines *related entity* as: “An entity that has any of the following relationships with the client:

- (a) An entity that has direct or indirect control over the client if the client is material to such entity;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;
- (c) An entity over which the client has direct or indirect control;
- (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and
- (e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity.”

²⁰ Paragraph R400.27 of the Code refers to a publicly traded entity in accordance with paragraphs R400.22 and R400.23. The Code defines *publicly traded entity* as: “An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange.

A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.”

²¹ Control and significant influence are not defined in the Code. These concepts are generally determined at a jurisdictional level and might be determined by financial reporting frameworks, laws or regulations.

²² As per bullets (c) and (d) of the definition of related entity in the Code, where the audit client controls an entity or the audit client (or an entity it controls) has significant influence over an entity that is material and depending on whether the client is a publicly traded entity.

²³ As per bullets (a), (b) and (e) of the definition of related entity in the Code, where an entity controls the audit client or has significant influence over the client that is material, or an entity and the client are under common control and both that entity and the client are material to the controlling entity.

32. Even if an audit client is not a publicly traded entity or does not have control over a related entity, that related entity might still need to be included in the auditor's independence assessment. When the auditor knows or has reason to believe that a relationship or circumstance involving that related entity is relevant to the independence evaluation, the auditor must consider it when identifying, evaluating and addressing threats to independence.²⁴

Question 1

Does the [Code's](#) definition of related entity capture all relevant parties that need to be included in the auditor's independence assessment when auditing CIVs/pension funds?

Please provide reasons for your response.

IV. Application of the Code to Connected Parties

33. The focus of this CP is on circumstances involving Connected Parties to an Investment Scheme. As noted in paragraph 9, the Project Team has identified situations in which these parties might not be covered by the Code's definitions of "audit client" or "related entity". Additionally, Part 4A of the Code lacks specific provisions directly addressing the issues that auditors should consider in such circumstances.
34. Investment Schemes typically do not employ their own staff; instead, they rely on other parties to provide functions or services for the Schemes that management or employees would provide in a conventional corporate structure. As a result, it is not unusual for an Investment Scheme to engage other parties, such as an asset management company or investment advisor to carry out vital functions (refer to [Section II](#)). The functions or services provided by these other parties can vary significantly depending on the jurisdictions or the Scheme structure.
35. In some cases, these parties might provide routine and mechanical services, like bookkeeping or administrative tasks. Alternatively, they might have significant responsibilities related to the Investment Scheme's policies and operations, such as making investment decisions, managing financial records and controls, managing the Scheme's overarching strategy, or selecting other service providers. In these circumstances, the other entity (referred to as a Connected Party) might:
- (a) Be responsible for the decision-making and operation of the Scheme;
 - (b) Substantially affect the financial performance of the Scheme; or
 - (c) Be in a position to exert significant influence over the preparation of its accounting records or financial statements.
36. If the Connected Party is not a related entity of the Investment Scheme under the Code, it would not be captured by the definition of "audit client" or the related entity provision in paragraph R400.27. Consequently, it would not be included in the scope of the specific independence provisions in Part 4A that apply to the audit client. In these circumstances, the auditor should apply the conceptual framework set out in Section 120 of the Code to independence.²⁵ However, the conceptual framework

²⁴ Paragraph R400.27 of the Code

²⁵ Refer to paragraph 400.6 of the Code.

approach allows for potentially different interpretations or outcomes in these types of audit engagements.

37. Part 4A also addresses how to apply the conceptual framework to identify, evaluate and address threats to independence when the auditor has a relationship with, or provides non-assurance services to, the audit client. However, some provisions, such as the following, may not explicitly capture Connected Parties:
- Auditor independence provisions when the auditor has a relationship with a party that is in a position to exert significant influence over the Investment Scheme's accounting records or financial statements.²⁶
 - A provision on assessing whether certain services that are provided to a separate entity are "indirectly" provided to an audit client and, therefore, might create threats to independence.²⁷
38. The IESBA is seeking stakeholders' views on whether incorporating specific independence provisions for audits of Investment Schemes, based on the criteria outlined in paragraph 35, would serve the public interest and promote consistent application of the Code's principles. For example, the IESBA would welcome stakeholders' views as to whether the Code should provide greater clarity on requirements for auditors to evaluate whether certain interests, relationships, or circumstances between the auditor and Connected Parties pose any threats to the auditor's independence when conducting the audit of an Investment Scheme.

The questions in this Section pertain to an audit of a CIV/pension fund where a Connected Party to the Scheme meets the criteria set out in paragraph 35, i.e., the Connected Party is:

- (a) Responsible for its decision making and operations;**
- (b) Able to substantially affect its financial performance; or**
- (c) In a position to exert significant influence over the preparation of its accounting records or financial statements.**

Question 2

Do you believe the criteria set out above are appropriate and sufficient to capture Connected Parties that should be considered in relation to the assessment of auditor independence with respect to the audit of a CIV/pension fund?

Please provide reasons for your response.

Question 3

Where there are such Connected Parties, do you believe that the application of the conceptual framework in Section 120 of the [Code](#) is sufficiently clear as to how to identify, evaluate and

²⁶ For example, paragraphs R520.4, R521.5 and R522.3 of the Code, among others.

²⁷ For example, paragraph 600.6 of the Code and paragraphs 72-73 of the [Basis for Conclusions](#) for the *Technology-related Revisions to the Code* and the application of the Conceptual Framework in Section 120 of the Code

address threats to independence resulting from interests, relationships, or circumstances between the auditor of the CIV/pension fund and the Connected Parties?

If not, do you believe the application of the conceptual framework in the Code as applicable to Connected Parties associated with Investment Schemes warrants additional clarification?

Please provide reasons for your response.

Question 4

Do you believe that the conceptual framework in Section 120 of the [Code](#) is consistently applied in practice with respect to the assessment of auditor independence in relation to Connected Parties when auditing a CIV/pension fund?

Please provide reasons for your response.

Question 5

Are there certain interests, relationships, or circumstances between the auditor of a CIV/pension fund and its Connected Parties that should be addressed? Please provide reasons for your response.

V. Research Findings on Jurisdictional Responses to Independence

39. The Project Team researched various jurisdictions to better understand the global context of Investment Schemes and their relationships with other parties and to obtain insight into how different jurisdictions address potential independence matters involving the Schemes.
40. Paragraph 400.23 A2 of the Code anticipates that some jurisdictions may designate CIVs and pension funds to be public interest entities (PIEs).²⁸ The Project Team has observed that some jurisdictions have enacted laws, regulations or standards that include certain Connected Parties as part of the audit client, while others require auditors to be independent of certain Connected Parties.
41. Some stakeholders expressed the view that the principles underlying “control” in accounting frameworks do not work appropriately with respect to Connected Parties to Investment Schemes. Other stakeholders stressed that certain CIV frameworks²⁹ ensure that no single party “controls” the Scheme. Another stakeholder referred to the importance of the IOSCO principles of securities regulation³⁰ in the design of regulatory frameworks addressing auditor independence with respect to Investment Schemes.
42. The following table includes a high-level summary of the types of jurisdictional responses to auditor independence revealed from this research (refer [Appendix 2](#) for further details).

²⁸ [IESBA Staff Releases Database of Public Interest Entity Definitions by Jurisdiction to Support Local Adoption and Implementation Efforts](#)

²⁹ For example, in the European Union, including Luxemburg and Ireland

³⁰ [Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation](#). For example, Principle 20 “Auditors should be independent of the issuing entity that they audit” sets out the critical role of independent auditors in enhancing the reliability of financial information.

Response to Auditor Independence	Details and variations
Additional requirements with respect to what the term “audit client” encompasses.	<ul style="list-style-type: none"> • Legislative requirement to include a CIV’s management company and its directors as part of the audit client for certain independence provisions. • Legislation that stipulates that the term “audit client” includes the CIV and its management company.
Specifically amending the definition of related entity / affiliate for CIVs.	A rule that includes an additional limb of the definition of affiliate, which among other things, means the CIV’s investment adviser or sponsor is always included as part of the audit client, and therefore within the scope of independence requirements.
Requiring the CIV auditor to be independent of certain other parties to the CIV.	<ul style="list-style-type: none"> • Regulation stipulates that the auditor must be independent of a CIV’s management company, trustees/custodians, and for corporate CIVs, the directors of that CIV. • Legislative requirement that the CIV auditor must be independent of the CIV and its management company.
Stipulating who can undertake the CIV audit.	<ul style="list-style-type: none"> • Regulation prevents a CIV auditor from being in any way associated with the auditor of the CIV’s management company. • Legislation stipulates that the same auditor must audit the CIV and the CIV’s management company.

Question 6

Does your jurisdiction have requirements or guidance specific to audits of CIVs/pension funds from an auditor independence perspective? If yes, are those requirements included in audit-specific or CIV-specific regulation? Please provide details.

VI. Way Forward

43. The IESBA's issuance of this CP on auditor independence for Investment Schemes underscores the importance of high ethical standards as a basis for public trust in the audit of such Schemes. By seeking stakeholder feedback, the IESBA aims to ensure that the Code remains robust, clear and relevant in addressing the unique challenges posed by these Schemes. The insights gathered from this consultation will help inform the IESBA's deliberations on whether enhancements to the Code or non-authoritative material is needed to properly safeguard the public interest. The Project Team will analyze the responses to this CP in Q3 2025, with a view to finalizing a report and recommendations to the IESBA by the end of the year.

Appendix 1

Investment Scheme Structures

Collective Investment Vehicles

Table 1: Typical CIV structures:

CIV Structure	Description ³¹
Corporate	Investors acquire shares in an investment company whose main objective is to invest in a portfolio of securities. These structures operate as a corporate entity, with a Board of Directors that is usually ultimately responsible for corporate governance. The management of the CIV is generally conducted by a management company or an investment advisor that is appointed by the Board of Directors.
Contractual	Investors buy units in the CIV, which provides them with an interest in a portfolio of diversified securities. The CIV does not have a legal form or personality of its own, therefore the management of the portfolio is generally entrusted to a management company.
	Another type of contractual model is a unit trust which is established and governed under a trust deed. Investors receive units in the trust in proportion to the amount of money invested.
Hybrid ³²	A separate independent entity is responsible for certain oversight functions for the CIV.
Limited Partnerships	The fund is constituted in the form of a partnership where a general partner manages the fund on behalf of the other limited partners.

Pension Funds

Pension funds are investment pools that accumulate contributions from employees, employers or both. The invested funds are generally distributed to the respective beneficiary upon retirement. There are two main types of pension funds: defined benefit³³ and a defined contribution³⁴ plans. Typically, professional managers select the investments in the defined benefit plans whereas individual participants in a defined contribution plan might be able to select their investments. Defined benefit plans have an insurance

³¹ These descriptions are derived from the IOSCO report, [Examination of Governance for Collective Investment Schemes - Part I](#). The typical CIV structures observed through the IESBA Project Team's research are consistent and align with the governance models and descriptions in that IOSCO report.

³² Hybrid between the Corporate and Contractual Models listed.

³³ A defined benefit plan pays out a guaranteed fixed income to the beneficiary after retiring and for life, regardless of the performance of the underlying investment pool. The benefit is not directly tied to the investment returns and the employer bears the investment risks.

³⁴ A defined contribution plan is based on employee/employer contributions with a payout based on the fund's performance. The employee bears the investment risks, and the employer is not responsible to make any benefit payment if the fund underperforms.

perspective, which focuses on providing guarantees with respect to beneficiaries, while defined contribution plans generally provide beneficiaries with a choice of investment options based on their risk appetite.

The IESBA Project Team's jurisdictional analysis revealed that pension funds can also be structured under different legal frameworks, which subsequently determine the specific legal and regulatory obligations applicable.

Roles and Responsibilities

This section outlines some of the functions, roles, and responsibilities of other parties that are engaged by CIVs.

Table 2: Examples of key roles that are generally undertaken by other parties involved in CIVs, for the most common legal frameworks observed, and their respective responsibilities

Role / Function	Investment / Asset Management Vehicle	Trust	Limited Partnership
Governance and strategic direction	Board of Directors (BOD) of the Investment / Asset Management Vehicle (AMV)	Board of Trustees	General Partner
Management of investments in accordance with the founding document	Investment Advisor ³⁵ appointed by BOD of the Investment Company	Investment Advisor appointed by Board of Trustees	Investment Advisor appointed by General Partner
Responsible for day-to-day operations	Investment Advisor / Sub-advisor / AMV	Investment Advisor (or sub-advisor) appointed by Board of Trustees / AMV	General Partner / AMV
Safeguarding of assets	Custodian	Custodian	Custodian

³⁵ An individual or entity that manages a CIV's investments in various portfolios and can also be responsible for the day-to-day operations of the CIV for certain CIV legal frameworks. Some of the responsibilities of the CIV Manager might include:

- Organizing, managing and controlling the CIV
- Maintaining accounting records of the CIV, including the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework
- Designing, implementing, monitoring or maintaining internal controls

Appendix 2

Research Findings on Jurisdictional Responses to Independence

The discussion below details some responses to auditor independence that have been implemented in certain jurisdictions with respect to Investment Schemes based on the IESBA Project Team's research. These summaries do not intend to cover all aspects of the relevant framework for Investment Schemes in these jurisdictions but focuses on specific auditor independence aspects. The IESBA Project Team's research also demonstrates that some jurisdictions have not specifically addressed auditor independence with respect to Investment Schemes. This is not a comprehensive list of all jurisdictions the Project Team engaged with in the outreach process.

Australia

The Australian corporation's legislation³⁶ includes specific provisions on auditor independence in addition to those in the local Code.³⁷ When applying certain provisions, the legislation requires the audit firm to include as part of the "audited body" the "responsible entity" (trustee and manager and a separate legal entity to the CIV) and its directors.³⁸

Hong Kong SAR

There are three main funds in Hong Kong – Securities and Futures Commission (SFC)-regulated mutual funds, Mandatory Provident Funds (MPF) and Limited Partnership Funds.

SFC-regulated funds are unit trusts or open-ended fund companies subject to the SFC Code.³⁹ The SFC Code requires an independent Trustee (for unit trusts) or Custodian (for fund companies) and a management company to be appointed for each fund.⁴⁰ Due to the role of the Trustee/Custodian (and the directors of fund companies),⁴¹ the management company is generally considered to be an agent, does not control the fund, and therefore, is generally not a related entity under Hong Kong's Code of Ethics.⁴² However, the SFC Code requires the auditor to "*be independent of the management company, the trustee/custodian, and, in the case of a mutual fund corporation, the directors.*"⁴³

³⁶ Australia introduced a new type of investment company called a corporate collective investment vehicle (CCIV) which can be registered from 1 July 2022 – [Corporate collective investment vehicles | ASIC](#). CCIVs are not addressed in this Consultation Paper.

³⁷ APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

³⁸ Section 324CH(1) of the *Corporations Act 2001* sets out a table of relevant relationships for the auditor independence requirements set out in Sections 324CE, CF and CG of that Act. Under Section 324CH(2), if the audited body is a registered scheme (a type of CIV) then the responsible entity for the registered scheme is included as part of the audited body for certain provisions. Note there are similar provisions for a registrable superannuation entity (a type of pension fund).

³⁹ [Section II: Code on Unit Trusts and Mutual Funds](#).

⁴⁰ Paragraphs 4.1, 4.7, and 5.1 of the SFC Code.

⁴¹ Chapter 4 and paragraph 5.11 of the SFC Code.

⁴² Hong Kong Institute of Certified Public Accountants (HKICPA) *Code of Ethics for Professional Accountants* is based on the IESBA Code and has the same related entity definition.

⁴³ Paragraph 5.16 of the SFC Code.

India

CIVs in India include mutual funds that are trusts and require a sponsor to set up a trustee company and an asset management company. The asset management company is responsible for day-to-day management, compliance with regulatory requirements, accounting and the financial statements for the fund.⁴⁴ The Securities and Exchange Board of India (SEBI) regulations⁴⁵ stipulate that the fund's auditor must not be in any way associated with the auditor of the asset management company.

Italy

Italian CIVs are either contractual or statutory based:

- Contractual based Undertakings for Collective Investment management (mutual investment funds) do not have their own legal personality. A separate asset management company owns the fund's assets and liabilities in the fund's name and acts on its behalf, and the management company's Board of Directors is the ultimate decision maker for the fund. The asset management company possesses a distinct and separate capital from the fund. Under Italian law,⁴⁶ the "audit client" is the CIV itself and the Italian management company, the fund auditor must be the same as the management company auditor, and the auditor must be independent of both the fund and the management company.
- Statutory based Undertakings for Collective Investment management⁴⁷ are companies with their own legal personality, where the CIV's investors are also the CIV's shareholders; assets and liabilities of the CIV are managed directly within the company itself by their managers/directors elected by the shareholders (i.e., the investors) assembled in the general meeting. They can be also externally managed by a designated asset management company; in this case, managers/directors of the externally managed company must oversee the activities of the designated manager. The "audit client" is the CIV.

United States (US) – SEC Rules on ICCs

Under the SEC rules and regulations, the "audit client" consists of the entity being audited and its affiliates.⁴⁸ The definition of "affiliate"⁴⁹ is similar to the definition of "related entity" in the Code.⁵⁰ However, the SEC rule includes an additional limb which applies when the entity under audit is an investment company or

⁴⁴ Obligations of the asset management company are specified in the [Securities and Exchange Board of India \(Mutual Funds\) Regulations 1996](#) and the [Master Circular for Mutual Funds](#)

⁴⁵ [Securities and Exchange Board of India \(Mutual Funds\) Regulations 1996](#) Clause 55

⁴⁶ Including [Legislative Decree No. 58 of 24 February 1998, TUF](#)

⁴⁷ Called a SICAV (variable capital investment company) or a SICAF (fixed capital investment company)

⁴⁸ Refer [SEC 17 CFR Parts 210 Final Rule December 11, 2020](#) Section 210.2-01 Qualifications of Accountants – § 210.2-01(f)(6) *Audit client means the entity whose financial statements or other information is being audited, reviewed, or attested to and any affiliates of the audit client, other than, for purposes of paragraph (c)(1)(i) of this section, entities that are affiliates of the audit client only by virtue of paragraphs (f)(4)(iii), (f)(4)(iv), or (f)(14)(i)(E) of this section.*

⁴⁹ § 210.2-01(f)(4) and the meaning of an affiliate of the audit client

⁵⁰ Also refer to paragraphs 58 of the IESBA Staff publication [Benchmarking International Independence Standards: Phase 1 Report: Comparison of IESBA and US SEC/PCAOB Independence Frameworks.](#)

investment adviser or sponsor, in which case “affiliates” are determined differently than for a conventional corporate structure, and consists of each entity in the ICC.⁵¹

The SEC rule includes the following notable inclusions of affiliates of the entity under audit in an ICC (assuming the entity under audit is an investment company):

- The ICC always includes the investment company’s investment adviser or sponsor.⁵²
- The ICC includes an entity controlled by the investment adviser or sponsor if that entity provides administrative, custodial, underwriting, or transfer agent services to the investment company or investment adviser or sponsor.⁵³
- The ICC includes any entity under common control (sister entity) with the investment company or investment advisor or sponsor if that entity is providing administrative, custodial, underwriting, or transfer agent services to the investment company or investment adviser or sponsor.⁵⁴

US – American Institute of Certified Public Accountants (AICPA)

The AICPA Code of Professional Conduct extends independence to certain entities or bodies based upon

⁵¹ § 210.2-01(f)(4)(v) *Each entity in the investment company complex as determined in paragraph (f)(14) of this section when the entity under audit is an investment company or investment adviser or sponsor, as those terms are defined in paragraphs (f)(14)(ii), (iii), and (iv) of this section.*

⁵² SEC Rule 17 CFR § 210.02(f)(14)(i)(B) *The investment adviser or sponsor of any investment company identified in paragraph (f)(14)(i)(A)(1) of this section. Also refer to page 28 of the [SEC 2020 Final Rule on 17 CFR Part 210](#) “Even where an investment company has an independent board that oversees the investment company’s operations and approves the advisory contract, the services provided by the investment adviser are generally critical to the management of day-to-day operations and execution of policies for the investment company. Therefore, the investment adviser generally will have a controlling relationship over the investment company for purposes of Rule 1-02(g).”*

⁵³ SEC Rule 17 CFR § 210.02(f)(14)(i)(C) (noting it is a sister entity of any affiliate identified in A, B, or C of this section, so not just sister entities of the entity under audit) *Any entity controlled by or controlling:*

- 1) *An entity under audit identified by paragraph (f)(14)(i)(A) of this section, or*
- 2) *An investment adviser or sponsor identified by paragraph (f)(14)(i)(B) of this section.*

When the entity is controlled by an investment adviser or sponsor identified by paragraph (f)(14)(i)(B), such entity is included within the investment company complex if:

- (i) *The entity and the entity under audit are each material to the investment adviser or sponsor identified by paragraph (f)(14)(i)(B) of this section; or*
- (ii) *The entity is engaged in the business of providing administrative, custodial, underwriting, or transfer agent services to any entity identified by paragraphs (f)(14)(i)(A) or (B) of this section.*

⁵⁴ SEC Rule 17 CFR § 210.02(f)(14)(i)(D) *Any entity under common control with an entity under audit identified by paragraph (f)(14)(i)(A) of this section, any investment adviser or sponsor identified by paragraph (f)(14)(i)(B) of this section, or any entity identified by paragraph (f)(14)(i)(C) of this section; if the entity:*

- 1) *Is an investment company or an investment adviser or sponsor, when the entity and the entity under audit identified by paragraph (f)(14)(i)(A) of this section are each material to the controlling entity; or*
- 2) *Is engaged in the business of providing administrative, custodial, underwriting, or transfer agent services to any entity identified by paragraphs (f)(14)(i)(A) and (f)(14)(i)(B) of this section.*

their connection to the financial statement attest client⁵⁵ which are defined as “affiliates”⁵⁶. The elements of “related entity” in the Code generally align to parts (a) to (e) of the AICPA Code’s “affiliate” definition. However, parts (g) to (l) of the AICPA Code’s “affiliate” definition includes entities involved with Investment Schemes.

⁵⁵ Definition of “financial statement attest client” in the AICPA Code “An entity whose financial statements are audited, reviewed, or compiled when the member’s compilation report does not disclose a lack of independence.”

⁵⁶ An affiliate of a financial statement attest client is:

- (a) An entity (for example, subsidiary, partnership, or limited liability company [LLC]) that a *financial statement attest client* can control.
- (b) An entity in which a *financial statement attest client* or an entity *controlled* by the *financial statement attest client* has a direct financial interest that gives the *financial statement attest client* *significant influence* over such entity and that is material to the *financial statement attest client*.
- (c) An entity (for example, parent, partnership, or LLC) that *controls* a *financial statement attest client* when the *financial statement attest client* is material to such entity.
- (d) An entity with a *direct financial interest* in the *financial statement attest client* when that entity has *significant influence* over the *financial statement attest client*, and the interest in the *financial statement attest client* is material to such entity.
- (e) A sister entity of a *financial statement attest client* if the *financial statement attest client* and sister entity are each material to the entity that *controls* both.
- (f) A trustee that is deemed to *control* a trust *financial statement attest client* that is not an investment company.
- (g) The sponsor of a single employer employee benefit plan *financial statement attest client*.
- (h) Any entity, such as a union, participating employer, or a group association of employers, that has *significant influence* over a multiemployer employee benefit plan *financial statement attest client* and the plan is material to such entity.
- (i) The participating employer that is the plan administrator of a multiple employer employee benefit plan *financial statement attest client*.
- (j) A single or multiple employer employee benefit plan sponsored by either a *financial statement attest client* or an entity *controlled* by the *financial statement attest client*. All participating employers of a multiple employer employee benefit plan are considered sponsors of the plan.
- (k) A multiemployer employee benefit plan when a *financial statement attest client* or entity *controlled* by the *financial statement attest client* has *significant influence* over the plan and the plan is material to the *financial statement attest client*.
- (l) An investment adviser, a general partner, or a trustee of an investment company *financial statement attest client* (fund) if the fund is material to the investment adviser, general partner, or trustee that is deemed to have either *control* or *significant influence* over the fund. When considering materiality, members should consider investments in, and fees received from, the fund.

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Terms of Reference for the Project Advisory Group (PAG)

Project Title: Revision of GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* and EG Au8 *Audit Implications of the Use of Service Organisations for Investment Management Services*

Date Prepared: 27 February 2025

Objective and Scope of the Project

To support the AUASB's project to review and revise its Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* ([GS 007](#) - revised October 2011), with regard to key issues with its application by auditors of financial reports. This project will also cover the revisions to EG Au8 *Audit Implications of the Use of Service Organisations for Investment Management Services* (NZ equivalent to GS 007).

The project scope will be determined after the formation of the Project Advisory Group (PAG). The scope details will be outlined in a project plan which will be approved by the AUASB and NZ AuASB at future meetings. It is intended to propose to the Boards that the project cover reporting that the auditors of the financial reports of user entities should expect from auditors of service organisations that provide investment management or custodian services to the user entity; and will exclude, for example, reporting for the purposes of assurance over information in sustainability reports. It is also proposed that the project will cover how the auditor of the user entity should use reports from the service organisation auditor. PAG members will have an opportunity to make suggestions on the scope for consideration by the Boards.

Purpose of the Project Advisory Group (PAG)

- To assist the AUASB and NZ AuASB in achieving the objective of the project outlined above, PAG members are expected to draw on their own and their organisations' professional expertise and experience in the subject matter.
- The PAG will work with auditors of user entities and service organisations to:
 - a) Understand the matters raised by audit practitioners; and
 - b) Advise how those matters could be best addressed within the existing Australian assurance framework, leveraging from relevant international materials where appropriate.

Membership

- The PAG will include approximately 6 members to be selected from the six largest network audit firms, including the PAG Chair.
- The Chair of the PAG will be Klynton Hankin, a member of the AUASB.
- In accordance with paragraph 62 of the AUASB Due Process Framework, PAG members will be selected by the AUASB Chair, who will consult with appropriate representatives of the NZ AuASB.
- PAG members are expected to participate in most, if not all, meetings and other activities of the PAG.

Meetings

- It is intended that meetings will be via teleconference and will occur on a regular basis (monthly), commencing in March 2025. Meeting dates will be determined in consultation with PAG members.
- Further communications may occur via email or telephone at other times.
- The Office of the AUASB (Office) will organise and facilitate meetings by preparing agendas, minutes and other papers as required.

Responsibilities

PAG members:

The PAG member's role is to act in an advisory capacity to the AUASB and NZ AuASB providing industry and specific technical expertise, as well as the practitioner's and their organisation's perspective on the matters raised by audit practitioners.

It is expected that PAG members fully appraise themselves of the content of GS 007 and EG Au8 and related pronouncements, and that they will familiarise themselves with the relevant pronouncements of National Standard Setters that may be circulated by the Office, and papers prepared by the Office from time to time. In addition, PAG members may on occasion agree to contributing to discussion papers or other documents. The content, timeframe and deliverables for such contributions will be determined by mutual agreement between the PAG member and the Office.

Office of the AUASB:

The Office will be responsible for planning and convening meetings, preparing meeting papers, formulating and communicating recommendations to the AUASB and drafting a revised GS 007. The XRB staff supporting the NZ AuASB will undertake appropriate communications to the NZ AuASB on recommendations and revisions to EG Au8.

PAG Chair contact details

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Exposure Draft

Proposed Narrow-Scope Amendments to IAASB Standards Arising from the IESBA's Using the Work of an External Expert Project

APRIL 2025

COMMENTS DUE: JULY 24, 2025

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About the IAASB

This document was developed and approved by the International Auditing and Assurance Standards Board. It does not constitute an authoritative pronouncement of the IAASB, nor does it amend, extend or override the International Standards on Auditing (ISAs) or other of the IAASB's International Standards.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related services standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Stakeholder Advisory Council, which provides public interest input into the development of the standards and guidance.

REQUEST FOR COMMENTS

This Explanatory Memorandum (EM) accompanies, and should be read along with, the Exposure Draft (ED), *Proposed Narrow-Scope Amendments to IAASB Standards Arising from the International Ethics Standards Board for Accountants' (IESBA) Using the Work of an External Expert project*, which was developed and approved by the International Auditing and Assurance Standards Board® (IAASB®). This publication may be downloaded from the IAASB website: www.iaasb.org. The approved text is published in the English language.

The proposals set out in this ED may be modified, based on comments received, before being issued as a final pronouncement. **Comments are requested by July 24, 2025.**

Use of Response Template

We encourage all respondents to submit their comments electronically using the [Response Template](#) provided. The response template has been developed to facilitate responses to the questions in **Section 2** of this EM. Use of the template will facilitate our collation and analysis of the responses.

Recognizing that the IAASB utilizes software to support our analysis of comments received from respondents to public consultations, you can assist our review of the responses by bearing the following in mind in preparing your submission:

- Respond directly to the questions in the template and **provide the rationale for your answers. If you disagree with the proposals in the ED, please provide specific reasons for your disagreement and specific suggestions for changes that may be needed to the requirements or application material. If you agree with the proposals, it will be helpful for the IAASB to be made aware of this view.**
- You may respond to all questions or only those questions for which you have specific comments.
- When formulating your responses to a question, it is most helpful to identify the specific aspects of the ED that your response relates to, for example, by reference to sections, headings or specific paragraphs in the ED.
- Avoid inserting tables or text boxes in the template when providing your responses to the questions.

The completed response template can be uploaded using the “Submit Comment” [link](#) on the IAASB website: www.iaasb.org. When submitting your completed response template, it is not necessary to include a covering letter with a summary of your key issues. The response template provides the opportunity to provide details about your organization and, should you choose to do so, any overall views you wish to place on the public record. All responses will be considered a matter of public record and will ultimately be posted on the IAASB website.

EXPLANATORY MEMORANDUM

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Introduction

1. This memorandum provides background to, and an explanation of, the IAASB's proposed narrow-scope amendments to IAASB standards arising from the IESBA's Using the Work of an External Expert project. The IAASB approved the proposed amendments to IAASB standards on March 21, 2025, for exposure.

Background

IESBA Project on Using the Work of an External Expert

2. In December 2023, the IESBA approved an ED for proposed revisions to the IESBA's *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) related to [Using the Work of an External Expert](#). The proposals included three new sections to the Code:
 - Section 390 for professional accountants (PAs) in public practice;
 - Section 290 for PAs in business; and
 - Section 5390 for sustainability assurance practitioners (SAPs). Proposed Section 5390 was an integral part of IESBA's ED [Proposed International Ethics Standards for Sustainability Assurance \(including International Independence Standards\) \(IESSA\) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting](#).
3. The IESBA approved the provisions on using the work of an external expert at its December 2024 meeting.¹
4. The approved new Code sections establish an ethical framework to guide PAs and SAPs in evaluating whether an external expert has the necessary competence, capabilities and objectivity (CCO) for the PA or SAP to use the expert's work for the PA's or SAP's purposes. The revised Code also includes provisions to guide a PA or SAP in applying the Code's conceptual framework when using the work of an external expert.

IAASB Narrow-Scope Amendments Project

5. The [IAASB Strategy and Work Plan for 2024–2027](#) includes a project to consider narrow-scope amendments arising from IESBA's project, recognizing that IESBA's introduction of ethical requirements related to using the work of an external expert in audit, assurance and other services engagements may necessitate amendments to IAASB standards, including ISA 620,² to ensure that the two Boards' standards can continue to be effectively applied together.
6. The IAASB discussed and approved a [project proposal](#) to undertake this narrow-scope amendments project at its March 2025 meeting. The project objective is to maintain the interoperability of the IAASB standards with the new provisions in the Code related to using the work of an external expert. While ISA 620 and other IAASB standards address both internal and external experts, this narrow-scope amendments project is focused on requirements related to using the work of an *external expert*, while maintaining the distinction between internal and external experts.

¹ [Final Pronouncement: Using the Work of an External Expert | Ethics Board](#)

² International Standard on Auditing (ISA) 620, *Using the Work of an Auditor's Expert*

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7. Given the objective of this narrow-scope amendments project, the proposed standard-setting actions do **not** include:
- A full review and revision of ISA 620;
 - Considerations related to the work of auditors' or practitioners' internal experts; and
 - Considerations related to the work of a management's expert. Section 390 of the Code does not apply to the use of the work of an expert employed or engaged by the client to assist the client in preparing financial or non-financial information.
8. The following standards are **not** within the scope of this project:
- ISSA 5000³ – The IAASB and IESBA agreed in September 2024 that the two Boards were in alignment on the interoperability of ISSA 5000 and Section 5390 of the Code (see Section 7 of Agenda Item J.1 for the [September 2024 IAASB meeting](#)). Because ISSA 5000 was recently issued, and is a new standard in an evolving area, the IAASB concluded that the public interest benefit of a stable platform outweighs the benefits of further changes to ISSA 5000 at this time to align with proposed changes to the other IAASB standards.
 - ISAE 3410⁴ - As explained in paragraph 19 of the [ISSA 5000 Basis for Conclusions](#), the IAASB agreed that ISAE 3410 could be withdrawn in accordance with due process once ISSA 5000 becomes effective. The IAASB approved the withdrawal in March 2025.

Coordination Between the IESBA and IAASB

9. The IESBA's development of the provisions for using the work of an external expert was closely coordinated with the IAASB to maximize alignment and interconnectivity between the Code and the IAASB's standards. In particular, in developing the provisions, the IESBA endeavored to avoid (a) conflict with ISA 620, ISSA 5000 or other relevant IAASB standards, and (b) incorporating provisions relating to the performance of audit or assurance procedures versus encapsulating ethics-related considerations. When IAASB was developing ISSA 5000, there was extensive coordination with IESBA on a range of topics, including external experts, which led to the determination that the Boards were in alignment as noted in paragraph 8 above. Ongoing coordination between the two Boards continued as IESBA finalized their provisions related to using the work of an external expert.
10. To ensure alignment with the Code, the IAASB's Experts project team also coordinated with IESBA staff when developing the project proposal and the proposed narrow-scope amendments.

Coordination with Other IAASB Task Force and Project Teams

11. The project team coordinated with Staff of the Fraud Task Force and Audit Evidence and Risk Response project team to share the objective of the Experts project and the Experts project team's analysis of the effect of the Code revisions on the IAASB standards. The IAASB concluded that there is nothing at this point that will affect either of those projects.

³ International Standard on Sustainability Assurance (ISSA)TM 5000, *General Requirements for Sustainability Assurance Engagements*

⁴ International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*

Section 1 – Significant Matters

Section 1-A – Public Interest Issues Addressed

12. In developing this ED, the IAASB considered the qualitative standard-setting characteristics included in the [Public Interest Framework](#) (PIF) as criteria to assess the proposed standard's responsiveness to the public interest. Paragraph 15 of the project proposal sets out the following qualitative standard-setting characteristics that were front of mind in how the achievement of the project objective will serve stakeholder needs and the broader public interest:
- *Relevance* – focuses on the continued relevance of IAASB standards, including ISA 620, in view of the new provisions in the Code related to using the work of an external expert, and the growing involvement of experts in areas such as estimates, technology and sustainability.
 - *Timeliness* – focuses on any actual or perceived differences in the requirements and guidance between ISA 620 and other IAASB standards and the new provisions in the Code so that any such differences can be addressed on a timely basis, taking into account the effective date of the new provisions of the Code.
 - *Appropriateness of scope* – focuses on targeted amendments necessary to maintain the interoperability of ISA 620 or other IAASB standards with the Code (i.e., not a complete revision of ISA 620).
 - *Coherence* – focuses on the consistency of requirements across the body of standards to make sure that requirements related to using the work of an external expert are not in conflict.
 - *Comprehensiveness* – focuses on limiting the extent to which there are exceptions to the principles set out in ISA 620 or other IAASB standards, including taking into account that relevant ethical requirements, such as the IESBA Code, may include provisions addressing the fulfillment of the practitioner's ethical responsibilities related to evaluating whether an external expert has the necessary CCO for the practitioner's purposes.
 - *Enforceability* – focuses on clearly stated responsibilities of the PA or practitioner.
13. The IAASB believes that these qualitative standard-setting characteristics are addressed by the proposed narrow-scope amendments, which were developed through the standard-setting actions intended to enable the achievement of the project objective.

Section 1-B – Approach to Determining the Narrow-Scope Amendments

14. The IAASB focused its narrow-scope amendments project on identifying only those targeted amendments to IAASB standards needed to maintain interoperability with the Code. From this standpoint, the new provisions in the Code relate primarily to:
- Evaluating the CCO of the external expert, including, in connection with agreeing the terms of engagement with the external expert, the provision of certain information in writing by the expert to assist the PA in evaluating the external expert's objectivity; and
 - Concluding on the external expert's CCO, including circumstances in which the PA would be unable to use the work of the external expert.
15. ISA 620 addresses using the work of an auditor's expert and therefore the IAASB determined that it would be an appropriate starting point for determining the narrow-scope amendments that may be

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needed to maintain interoperability with the provisions in the Code. However, Section 390 of the Code applies to all professional services, with specific provisions that apply to audit, review and other assurance engagements. Accordingly, based on the proposed amendments to ISA 620, the IAASB explored the need for targeted amendments to other IAASB standards, taking into account the nature and scope of the engagements addressed by these standards and in the context of the provisions of the Code applicable to such engagements.

16. The IAASB noted references to “expert” in the requirements and application material in the other ISAs (i.e., other than ISA 620) and International Standards on Quality Management (ISQMs) ordinarily relate to:
- General references to an internal expert (part of the engagement team), external expert (not part of the engagement team) or a management’s expert. As indicated in paragraph 7 above, this narrow-scope amendments project does not include considerations related to the work of an auditor’s or practitioner’s internal expert or to the work of a management’s expert.
 - General references to ISA 620.
 - Determining the need to involve an expert and, if so, the type of expert that may be most appropriate in the circumstances.
 - In the context of audit evidence,⁵ references to the work of an expert as a source of information and the evaluation of the relevance and reliability of information intended to be used as audit evidence.

Given the nature of these references, the IAASB determined that no targeted amendments to the other ISAs were needed as a result of the revisions to the Code related to using the work of an external expert.

17. The IAASB also considered references to “expert” in the ISREs (International Standards on Review Engagements), ISAEs and ISRSs (International Standards on Related Services) series, and determined that targeted amendments would be appropriate in ISRE 2400 (Revised),⁶ ISAE 3000 (Revised)⁷ and ISRS 4400 (Revised).⁸ As noted in paragraph 8 above, ISSA 5000 and ISAE 3410 are outside the scope of this project.

Section 1-C – Narrow-Scope Amendments to ISA 620

Definitions

18. The definition of “expert” in the Code is aligned with the core definition of “auditor’s expert” in ISA 620, as both address the expert possessing expertise in a field outside of the auditor’s competence (i.e., a field other than accounting or auditing). The Code also has a definition of “external expert” stating, for audit engagements, that the expert’s work in that field of expertise is used to assist the auditor in obtaining sufficient appropriate audit evidence.

⁵ With respect to audit evidence, the IAASB considered references in the “Proposed ISA 500 (Revised) Pre-finalization Holding Package.”

⁶ ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

⁷ ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

⁸ ISRS 4400 (Revised), *Agreed-upon Procedures Engagements*

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19. The IAASB noted that ISA 620 does not specifically define an “external expert.” However, the definition of “auditor’s expert” differentiates between an internal expert (a partner or staff, including temporary staff, of the auditor’s firm or a network firm) and an external expert. In addition, paragraph A12 of ISA 620 indicates that ISQM 1⁹ requires the firm to address the use of resources from a service provider, which includes the use of an external expert. Therefore, the IAASB agreed that no change is needed to the ISA 620 definition as this differentiation between an internal and external expert is important throughout the ISAs (and other IAASB standards) for determining who is or is not part of the engagement team.

Evaluating the CCO of the External Expert

Nature, Timing and Extent of the Auditor’s Procedures

20. Paragraph 8 of ISA 620 addresses the nature, timing and extent of the auditor’s procedures with respect to the evaluation of CCO as well as the other requirements in paragraphs 10–13 (i.e., obtaining an understanding of the expert’s field of expertise, the agreement with the expert, and evaluating the adequacy of the expert’s work).
21. The IAASB noted that each of the items in paragraph 8(a)–(e) of ISA 620 continues to be relevant in light of the new Code provisions (see paragraph 14 above). However, a significant new aspect of the Code provisions is the requirement for the external expert to provide information, in writing, for purposes of assisting the evaluation of the external expert’s objectivity. Although this Code provision is in the context of agreeing the terms of engagement with an external expert,¹⁰ the IAASB noted that this is an overarching factor that can have an effect on the nature, timing and extent of the auditor’s procedures, particularly for evaluating the external expert’s CCO (paragraph 9 of ISA 620) and the agreement with the expert (paragraph 11 of ISA 620).
22. Therefore, the IAASB is proposing an additional sub-requirement (f) to paragraph 8 of ISA 620 for the auditor to consider provisions of relevant ethical requirements relating to using the work of an expert. A new application material paragraph (paragraph A13A) also is proposed to indicate, by example, that the IESBA Code includes provisions related to using the work of an external expert.

Auditor’s Evaluation of the CCO of the Auditor’s Expert

23. No targeted amendments are proposed to the core requirement in paragraph 9 of ISA 620 regarding the auditor’s evaluation of whether the expert has the necessary CCO for the auditor’s purposes. The requirement already states that, in the case of an auditor’s external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert’s objectivity. The IAASB noted that inquiry continues to be appropriate as a baseline requirement, but that application material may be needed to indicate that relevant ethical requirements may include provisions addressing the fulfillment of the auditor’s ethical responsibilities related to evaluating whether an auditor’s expert has the necessary CCO for the auditor’s purposes (see proposed paragraph A16A in the ED).

⁹ ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

¹⁰ IESBA Code, paragraph R390.5

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24. The new Code provisions make explicit the circumstances in which the auditor is prohibited from using the work of an auditor's expert.¹¹ Therefore, the IAASB discussed whether the implicit presumption in ISA 620 that the work of an auditor's expert cannot be used if the auditor concludes that the expert does not have the necessary CCO for the auditor's purposes should be made more explicit. The IAASB determined that the most appropriate way to address this presumption would be through additional application material. Accordingly, the IAASB proposes to add the following new application material in ISA 620:
- A paragraph (see paragraph A19A in the ED) to provide a bridge to relevant ethical requirements and, by example, the Code provisions indicating circumstances in which the auditor is prohibited from using the work of an auditor's external expert. This proposed new paragraph is consistent with paragraph A145 of ISSA 5000. The IAASB's view was that linking proposed paragraph A19A to the requirement in paragraph 9 would help to clarify the importance of the auditor's evaluation of CCO and the implications if the auditor is unable to determine whether, or concludes that, the auditor's external expert does not have the necessary CCO for the auditor's purposes.
 - A paragraph (see paragraph A31A in the ED) to more clearly indicate that the evaluation of the adequacy of the auditor's expert's work is based on the presumption that the auditor has determined that the expert has the necessary CCO for the auditor's purposes (see also paragraphs 28–30 below).
25. The IAASB also noted that the flow of the application material in ISA 620 would be improved by reversing the order of extant paragraphs A19 and A20. This reordering was deemed appropriate because the information provided by the external expert, including information that may be required to be provided in writing by relevant ethical requirements, assists the auditor's evaluation of whether any threats to the external expert's objectivity are at an acceptable level. In this regard, the IAASB also proposes an addition to the hanging paragraph in the last bullet in proposed new paragraph A18A(b) (extant paragraph A20(b)).

Agreement with the Auditor's Expert

26. The IAASB proposes no targeted amendments to paragraph 11 of ISA 620, which addresses the agreement with the auditor's expert. Paragraph A24 of ISA 620 already indicates that the matters noted in paragraph 8 of the standard may affect the level of detail and formality of the agreement between the auditor and the auditor's expert, including whether it is appropriate that the agreement be in writing. However, the IAASB is proposing an additional bullet in paragraph A24 to indicate that a factor to consider may be relevant ethical requirements that require the provision of information in writing from an auditor's external expert.
27. The IAASB's view is that the proposed amendment to paragraph 8(f) and the proposed addition of paragraph A13A, along with the proposed bullet to paragraph A24, provide an appropriate link to the provisions in the Code regarding the need to obtain information from the external expert in writing. However, the IAASB noted that some helpful points could be included in the Appendix to ISA 620, which lists matters that the auditor may consider for inclusion in any agreement with an auditor's external expert. See the proposed additions to the Appendix to ISA 620 in the ED.

¹¹ IESBA Code, paragraph R390.21

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Evaluating the Adequacy of the Auditor's Expert's Work

28. Paragraph 12 of ISA 620 requires the auditor to evaluate the adequacy of the auditor's expert's work for the auditor's purposes. This requirement is based on the presumption that the auditor has determined, in accordance with paragraph 9, that the expert has the necessary CCO for the auditor's purposes. Paragraph A14 of ISA 620 already indicates that the CCO of an auditor's expert are factors that significantly affect whether the work of the expert will be adequate for the auditor's purposes.
29. The IAASB concluded that proposed application material paragraph A31A in the ED would further highlight this presumption. The intended purpose of this application material is to provide a link between paragraphs 9 and 12, and to clarify that paragraph 12 of ISA 620 would not be relevant if the auditor has determined that the expert does not have the necessary CCO for the auditor's purposes (i.e., if the expert does not possess the necessary CCO, there would be no need to evaluate the adequacy of the expert's work).
30. Paragraph 13 of ISA 620 indicates that the auditor may perform additional procedures appropriate to the circumstances if the auditor determines that the work of the expert is not adequate for the auditor's purposes. The IAASB also discussed whether clarification may be needed to explain that this requirement is not a "work around" for circumstances in which the expert does not possess the necessary CCO and decided not to propose any targeted amendments in this regard. The IAASB noted that the additional application material in paragraph of A31A helps to clarify that the auditor would not evaluate the adequacy of the auditor's expert's work if the expert does not possess the necessary CCO and therefore paragraph 13 would not apply in this circumstance.

Section 1-D – Narrow-Scope Amendments to ISRE 2400 (Revised)

31. Paragraph 55 of ISRE 2400 (Revised) broadly applies to the use of work performed by others (i.e., other practitioners or experts). It indicates that, in the course of performing the review, it may be necessary for the practitioner to use the work of an individual or organization possessing expertise in a field other than accounting or assurance. There is no requirement for the practitioner to evaluate the CCO of the expert. If the practitioner uses work performed by an expert, the practitioner is required to take appropriate steps to be satisfied that the work performed is adequate for the practitioner's purposes. There is no application material indicating what steps might be appropriate in the circumstances.
32. The IAASB acknowledged that the broad nature of the requirement in paragraph 55 is different from the requirements related to experts in other IAASB standards. However, the IAASB was of the view that proposing no targeted amendments to ISRE 2400 (Revised) would be inconsistent with the proposed amendments to the other standards. Therefore, the IAASB is proposing to add an application material paragraph (see paragraph A97C in the ED), which is similar to proposed paragraph A19A in ISA 620, to provide a bridge to the Code provisions¹² indicating circumstances in which relevant ethical requirements may prohibit the auditor from using the work of an auditor's expert.
33. In addition, the IAASB is proposing to add application material, based on the concepts in the application material in ISA 620, to help provide appropriate context (see paragraphs A97A and A97B in the ED).

¹² IESBA Code, paragraph R390.21

Section 1-E – Narrow-Scope Amendments to ISAE 3000 (Revised)

34. The definition of “practitioner’s expert” in paragraph 12(s) of ISAE 3000 (Revised) is aligned with the definitions in the Code and is consistent with the definition of “auditor’s expert” in ISA 620. Therefore, no amendments are proposed to the definition.
35. Paragraph 32(b)(i) of ISAE 3000 (Revised) requires the engagement partner to be satisfied that the practitioner will be able to be involved in the work of a practitioner’s expert where the work of that expert is to be used. This requirement is not directly related to the new provisions in the Code for using the work of an external expert. Therefore, no targeted amendments are necessary.
36. Paragraph 52 of ISAE 3000 (Revised) is a conditional requirement for circumstances in which the work of a practitioner’s expert is to be used. The requirement is consistent with the core requirements in paragraphs 9–12 of ISA 620. Therefore, the IAASB is proposing the following targeted amendments to ISAE 3000 (Revised) (see ED):
- Adding a bullet to paragraph A121 similar to the wording in proposed paragraph A13A in ISA 620. The IAASB was of the view that this addition is appropriate because paragraph A121 is consistent with paragraph 8 of ISA 620 (see paragraph 22 above).
 - Reversing the order of paragraphs A128 and A129, and adding a sentence to the hanging paragraph in proposed new paragraph A127A (extant paragraph A129). This is similar to what is being proposed for ISA 620 (see paragraph 25 above).
 - Adding a new paragraph A128A similar to proposed paragraph A19A in ISA 620 (see paragraphs 23–24 above).
 - Adding a new paragraph A133A similar to proposed paragraph A31A in ISA 620 (see paragraphs 28–29 above).
37. Paragraph 70 of ISAE 3000 (Revised) addresses reference to the practitioner’s expert in the assurance report. It does not relate to the evaluation of the CCO of a practitioner’s expert and therefore is outside the scope of this project.

Section 1-F – Narrow-Scope Amendments to ISRS 4400 (Revised)

38. The definition of “practitioner’s expert” in paragraph 13(i) of ISRS 4400 (Revised) is aligned with the definitions in the Code and is consistent with the definition of “auditor’s expert” in ISA 620. Therefore, no amendments are proposed to the definition.
39. The requirements in paragraphs 19–20 of ISRS 4400 (Revised) are not directly related to the new provisions in the Code for using the work of an external expert. Therefore, no targeted amendments are necessary.
40. Paragraph 29 of ISRS 4400 (Revised) is a conditional requirement for circumstances in which the work of a practitioner’s expert is to be used. If the work of a practitioner’s expert is used, the practitioner is required to evaluate the CCO of that expert (paragraph 29(a)). Therefore, the IAASB is proposing to add an application material paragraph (see paragraph A47A in ED) indicating circumstances in which relevant ethical requirements may prohibit the practitioner from using the work of a practitioner’s external expert.

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41. Paragraph 31 of ISRS 4400 (Revised) addresses reference to the practitioner's expert in the agreed-upon procedures report. It does not relate to the evaluation of the CCO of a practitioner's expert and therefore is outside the scope of this project.

Section 1-G – Effective Date and Proposed Implementation Period

42. The IAASB believes that there is a public interest benefit in aligning the effective date of these proposed IAASB narrow-scope amendments with the effective date of the revised Code provisions related to using the work of an external expert, which is December 15, 2026.
43. The IAASB anticipates that the final pronouncement will be approved in September 2025 or December 2025.¹³ Therefore, the IAASB proposes an implementation period of approximately 12 months after the Public Interest Oversight Board's (PIOB) process of certification of the final narrow-scope amendments.¹⁴
44. The IAASB is of the view that such period would allow sufficient time to implement the narrow-scope amendments, along with efforts that would already be underway to implement the revised Code related to using the work of an external expert, including adoption and translation by jurisdictions, and incorporating the changes into firm methodologies, enablement tools and training materials.

¹³ Owing to the relatively short time available after closure of the comment period in July 2025 to finalize Board materials for the September 2025 IAASB meeting, the number of comment letters received and the nature of the responses may necessitate an adjustment to the project timeline.

¹⁴ After approval by the IAASB, the PIOB will consider its public certification of an approved new or revised standard(s) to confirm the PIOB's oversight of the standard-setting process throughout the full development cycle, that the standard was developed in a manner consistent with agreed due process and that the standard is responsive to the public interest, in accordance with the PIF.

Section 2 – Questions for Respondents

Respondents are asked to respond to the questions below using the [Response Template](#) as explained in the **Request for Comments** on page 4 of this EM.

*Please note that this public consultation does **not** extend to and is **not** inviting comments on the provisions in the IESBA Code related to using the work of an external expert. The IESBA project was completed in December 2024 and the final IESBA Pronouncement was issued on January 17, 2025.*

Questions for Respondents	Sections in this EM for reference
Overall Question	
<i>Public Interest Responsiveness</i>	
1. Do you agree that the proposed narrow-scope amendments are responsive to the public interest, considering the qualitative standard-setting characteristics and standard-setting actions in the project proposal? If not, why not?	Section 1-A
Specific Questions	
<i>Proposed Narrow-Scope Amendments to ISA 620</i>	
2. Do you agree that the proposed narrow-scope amendments to ISA 620 are appropriate to maintain interoperability with the new provisions in the Code related to using the work of an external expert? If you do not agree, what alternatives do you suggest (please identify the specific paragraphs and be specific as to why you believe the proposals are not appropriate, and why you believe your alternatives would be more appropriate)?	Section 1-C
<i>Proposed Narrow-Scope Amendments to ISRE 2400 (Revised), ISAE 3000 (Revised) and ISRS 4400 (Revised)</i>	
3. Do you agree that the proposed narrow-scope amendments to these other IAASB standards are consistent with the proposed amendments to ISA 620, and are appropriate to maintain interoperability with the new provisions in the Code related to using the work of an external expert? The response template provides for answering this question in relation to each of the following standards: 3.1 ISRE 2400 (Revised) 3.2 ISAE 3000 (Revised) 3.3 ISRS 4400 (Revised)	Sections 1-D to 1-F

**EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED NARROW-SCOPE AMENDMENTS TO IAASB STANDARDS
ARISING FROM THE IESBA'S USING THE WORK OF AN EXTERNAL EXPERT PROJECT**

Questions for Respondents	Sections in this EM for reference
<p>If applicable, for each instance where you do not agree, what alternatives do you suggest (please identify the specific paragraphs and be specific as to why you believe the proposals are not appropriate, and why you believe your alternatives would be more appropriate)?</p>	
<p><i>Other Matters</i></p>	
<p>4. Are there any other matters you would like to raise in relation to the ED? If so, please clearly indicate the standard(s), and the specific requirement(s) or application material, to which your comment(s) relate.</p>	

Request for General Comments

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

5. **Translations**—Recognizing that many respondents may intend to translate the final narrow-scope amendments for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED.
6. **Effective Date**—Given the public interest benefit of aligning the effective date of these proposed narrow-scope amendments with the effective date of the revised Code provisions related to using the work of an external expert, the IAASB believes that an appropriate implementation period would be approximately 12 months after the PIOB's process of certification of the final narrow-scope amendments (see Section 1-G above). The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the narrow-scope amendments.

PROPOSED NARROW-SCOPE AMENDMENTS TO IAASB STANDARDS ARISING FROM THE IESBA'S USING THE WORK OF AN EXTERNAL EXPERT PROJECT

[MARKED-UP FROM EXTANT STANDARDS¹]

The grey highlighted paragraphs have been added from the extant standards to provide additional context for the proposed narrow-scope amendments.

(Effective for ... [DATE])

ISA 620, USING THE WORK OF AN AUDITOR'S EXPERT

...

Requirements

...

Nature, Timing and Extent of Audit Procedures

8. The nature, timing and extent of the auditor's procedures with respect to the requirements in paragraphs 9–13 of this ISA will vary depending on the circumstances. In determining the nature, timing and extent of those procedures, the auditor shall consider matters including: (Ref: Para. A10)
- (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 system of quality management; and
(Ref: Para. A11–A13)
 - (f) Provisions of relevant ethical requirements related to using the work of an expert. (Ref: Para A13A)

The Competence, Capabilities and Objectivity of the Auditor's Expert

9. The auditor shall 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 inquiry regarding interests and relationships that may create a threat to that expert's objectivity. (Ref: Para. A14–A20)

...

¹ The ISA, ISRE, ISAE and ISRS as published in the 2023–2024 Handbooks (Volumes I and III).

PROPOSED NARROW-SCOPE AMENDMENTS TO IAASB STANDARDS ARISING FROM THE IESBA'S USING THE WORK OF AN EXTERNAL EXPERT PROJECT

Agreement with the Auditor's Expert

11. The auditor shall agree, in writing when appropriate, on the following matters with the auditor's expert: (Ref: Para. A23–A26)
- (a) The nature, scope and objectives of that expert's work; (Ref: Para. A27)
 - (b) The respective roles and responsibilities of the auditor and that expert; (Ref: Para. A28–A29)
 - (c) The nature, timing and extent of communication between the auditor and that expert, including the form of any report to be provided by that expert; and (Ref: Para. A30)
 - (d) The need for the auditor's expert to observe confidentiality requirements. (Ref: Para. A31)

Evaluating the Adequacy of the Auditor's Expert's Work

12. The auditor shall evaluate the adequacy of the auditor's expert's work for the auditor's purposes, including: (Ref: Para. A31A–A32)
- (a) The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence; (Ref: Para. A33–A34)
 - (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 (Ref: Para. A35–A37)
 - (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. (Ref: Para. A38–A39)

...

Application and Other Explanatory Material

...

Nature, Timing and Extent of Audit Procedures (Ref: Para. 8)

...

A13A. Relevant ethical requirements may include provisions that address a professional accountant's ethical responsibilities relating to the use of the work of an expert in the performance of an audit of financial statements. For example, the IESBA Code includes provisions related to the auditor's use of the work of an external expert.²

The Competence, Capabilities and Objectivity of the Auditor's Expert (Ref: Para. 9)

A14. The competence, capabilities and objectivity of an auditor's expert are factors that significantly affect whether the work of the auditor's expert will be adequate for the auditor's purposes. Competence relates to the nature and level of expertise of the auditor's expert. Capability relates to the ability of the auditor's expert to exercise that competence in the circumstances of the engagement. Factors that influence capability may include, for example, geographic location, and the availability of time

² See Section 390 of the IESBA Code.

PROPOSED NARROW-SCOPE AMENDMENTS TO IAASB STANDARDS ARISING FROM THE IESBA'S USING THE WORK OF AN EXTERNAL EXPERT PROJECT

and resources. Objectivity relates to the possible effects that bias, conflict of interest, or the influence of others may have on the professional or business judgment of the auditor's expert.

...

A16. Matters relevant to evaluating the competence, capabilities and objectivity of the auditor's expert include 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, or requirements imposed by law or regulation.

A16A. Relevant ethical requirements related to using the work of an auditor's expert may include provisions addressing the fulfillment of the auditor's ethical responsibilities related to evaluating whether an auditor's expert has the necessary competence, capabilities and objectivity for the auditor's purposes. See also paragraph A13A.

...

A18. A broad range of circumstances may threaten objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats, and intimidation threats. Such threats may be addressed by eliminating the circumstances that create the threats, or applying safeguards to reduce threats to an acceptable level. There may also be safeguards specific to the audit engagement.

A18A. [Relocated from A20] When evaluating the objectivity of an auditor's external expert, it may be relevant to:

- (a) Inquire of the entity about any known interests or relationships that the entity has with the auditor's external expert that may affect that expert's objectivity.
- (b) Discuss with that expert any applicable safeguards, including any professional requirements that apply to that expert; and evaluate whether the safeguards are adequate to reduce threats to an acceptable level. Interests and relationships that it may be relevant to discuss with the auditor's expert include:
 - Financial interests.
 - Business and personal relationships.
 - Provision of other services by the expert, including by the organization in the case of an external expert that is an organization.

In some cases, it may also be appropriate for the auditor to obtain a written representation from the auditor's external expert about any interests or relationships with the entity of which that expert is aware. Relevant ethical requirements may also require the auditor to obtain information, in writing, from the auditor's external expert regarding interests, relationships or circumstances that may create a threat to that expert's objectivity.³

A19. The evaluation of whether the threats to objectivity are at an acceptable level may depend upon the role of the auditor's expert and the significance of the expert's work in the context of the audit. In some cases, it may not be possible to eliminate circumstances that create threats or apply safeguards

³ See, for example, paragraphs R390.5 and R390.12–17 of the IESBA Code.

PROPOSED NARROW-SCOPE AMENDMENTS TO IAASB STANDARDS ARISING FROM THE IESBA'S USING THE WORK OF AN EXTERNAL EXPERT PROJECT

to reduce threats to an acceptable level, for example, if a proposed auditor's expert is an individual who has played a significant role in preparing the information that is being audited, that is, if the auditor's expert is a management's expert.

A19A. Relevant ethical requirements may prohibit the auditor from using the work of an auditor's expert in certain circumstances. For example, the IESBA Code prohibits the auditor from using the work of an external expert if the auditor:⁴

- (a) Is unable to determine whether the expert has the necessary competence or capabilities, or is objective;
- (b) Has determined that the 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.

...

Agreement with the Auditor's Expert (Ref: Para. 11)

...

A24. The matters noted in paragraph 8 may affect the level of detail and formality of the agreement between the auditor and the auditor's expert, including whether it is appropriate that the agreement be in writing. For example, the following factors may suggest the need for a more a-detailed agreement than would otherwise be the case, or for the agreement to be set out in writing:

- The auditor's expert will have access to sensitive or confidential entity information.
- The respective roles or responsibilities of the auditor and the auditor's expert are different from those normally expected.
- Multi-jurisdictional legal or regulatory requirements apply.
- Relevant ethical requirements require the provision of information in writing from an auditor's expert.⁵
- The matter to which the auditor's expert's work relates is highly complex.
- The auditor has not previously used work performed by that expert.
- The greater the extent of the auditor's expert's work, and its significance in the context of the audit.

A25. The agreement between the auditor and an auditor's external expert is often in the form of an engagement letter. The Appendix lists matters that the auditor may consider for inclusion in such an engagement letter, or in any other form of agreement with an auditor's external expert.

...

⁴ IESBA Code, paragraph R390.21

⁵ See, for example, paragraphs R390.5 and R390.12–17 of the IESBA Code.

PROPOSED NARROW-SCOPE AMENDMENTS TO IAASB STANDARDS ARISING FROM THE IESBA'S USING THE WORK
OF AN EXTERNAL EXPERT PROJECT

Evaluating the Adequacy of the Auditor's Expert's Work (Ref: Para. 12)

A31A. Paragraph 9 requires the auditor to evaluate whether the auditor's expert has the necessary competence, capabilities and objectivity for the auditor's purposes. The requirement in paragraph 12 to evaluate the adequacy of the auditor's expert's work is based on the presumption that the auditor has determined that the expert has the necessary competence, capabilities and objectivity for the auditor's purposes. See also paragraph A19A.

...

Appendix

(Ref: Para. A25)

Considerations for Agreement between the Auditor and an Auditor's External Expert

...

Communications and Reporting

...

- If required by the provisions of relevant ethical requirements, the auditor's external expert's agreement to provide requested information in writing for purposes of assisting the auditor's evaluation of that expert's objectivity, and a commitment to communicate any changes to the information provided as set out in the relevant ethical requirements.⁶
- The auditor's external expert's responsibility to communicate circumstances that may create threats to that expert's objectivity, including any changes in those circumstances, and any relevant safeguards actions that may eliminate such threats, or safeguards that may reduce such those threats to an acceptable level.

...

ISRE 2400 (REVISED), ENGAGEMENTS TO REVIEW HISTORICAL FINANCIAL STATEMENTS

...

Requirements

...

Performing the Engagement

...

⁶ See, for example, paragraphs R390.5 and R390.12–17 of the IESBA Code.

PROPOSED NARROW-SCOPE AMENDMENTS TO IAASB STANDARDS ARISING FROM THE IESBA'S USING THE WORK OF AN EXTERNAL EXPERT PROJECT

Use of work performed by others

55. In performing the review, it may be necessary for the practitioner to use work performed by other practitioners, or the work of an individual or organization possessing expertise in a field other than accounting or assurance. If the practitioner uses work performed by another practitioner or an expert in the course of performing the review, the practitioner shall take appropriate steps to be satisfied that the work performed is adequate for the practitioner's purposes. (Ref: Para. A78, A97A-A97C)

...

Application and Other Explanatory Material

...

Using Work Performed by an Expert (Ref: Para. 55)

A97A. The practitioner may use work performed by a practitioner's expert in the course of the review engagement. A practitioner's expert may be an external expert engaged by the practitioner (who is not part of engagement team), or an internal expert (who is part of the engagement team). 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.

A97B. Relevant ethical requirements may include provisions addressing the fulfillment of the practitioner's ethical responsibilities related to evaluating whether a practitioner's expert has the necessary competence, capabilities and objectivity for the practitioner's purposes. For example, the IESBA Code includes provisions related to the practitioner's use of the work of an external expert.⁷

A97C. Relevant ethical requirements may prohibit the practitioner from using the work of a practitioner's expert in certain circumstances. For example, the IESBA Code prohibits the practitioner from using the work of an external expert if the practitioner:⁸

- (a) Is unable to determine whether the expert has the necessary competence or capabilities, or is objective;
- (b) Has determined that the 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.

⁷ See Section 390 of the IESBA Code.

⁸ IESBA Code, paragraph R390.21

ISAE 3000 (REVISED), ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OR REVIEWS OF HISTORICAL FINANCIAL INFORMATION

...

Requirements

...

Obtaining Evidence

...

Work Performed by a Practitioner's Expert

52. When the work of a practitioner's expert is to be used, the practitioner shall also: (Ref: Para. A121–A125)
- (a) Evaluate whether the practitioner's expert has the necessary competence, capabilities and objectivity for the practitioner's purposes. In the case of a practitioner's external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert's objectivity; (Ref: Para. A126–A129)
 - (b) Obtain a sufficient understanding of the field of expertise of the practitioner's expert; (Ref: Para. A130–A131)
 - (c) Agree with the practitioner's expert on the nature, scope and objectives of that expert's work; and (Ref: Para. A132–A133)
 - (d) Evaluate the adequacy of the practitioner's expert's work for the practitioner's purposes. (Ref: Para. ~~A134~~A133A–A135)

...

Application and Other Explanatory Material

...

Obtaining Evidence

...

Considerations When a Practitioner's Expert Is Involved on the Engagement

Nature, Timing and Extent of Procedures (Ref: Para. 52)

A121. The following matters are often relevant when determining the nature, timing and extent of procedures with respect to the work of a practitioner's expert when some of the assurance work is performed by one or more practitioner's expert (see paragraph A70):

PROPOSED NARROW-SCOPE AMENDMENTS TO IAASB STANDARDS ARISING FROM THE IESBA'S USING THE WORK OF AN EXTERNAL EXPERT PROJECT

- (a) The significance of that expert's work in the context of the engagement (see also paragraphs A122-A123);
- (b) The nature of the matter to which that expert's work relates;
- (c) The risks of material misstatement in the matter to which that expert's work relates;
- (d) The practitioner's knowledge of and experience with previous work performed by that expert;
~~and~~
- (e) Whether that expert is subject to the practitioner's firm's quality management policies or procedures (see also paragraphs A124-A125); and
- (f) Whether relevant ethical requirements include provisions that address a practitioner's ethical responsibilities relating to the use of the work of an expert in the performance of an assurance engagement. For example, the IESBA Code includes provisions related to the practitioner's use of the work of an external expert.⁹

...

The Competence, Capabilities and Objectivity of the Practitioner's Expert (Ref: Para. 52(a))

...

A127A. **[Relocated from A129]** When evaluating the objectivity of a practitioner's external expert, it may be relevant to:

- Inquire of the appropriate party(ies) about any known interests or relationships that the appropriate party(ies) has with the practitioner's external expert that may affect that expert's objectivity.
- Discuss with that expert any applicable safeguards, including any professional requirements that apply to that expert, and evaluate whether the safeguards are adequate to reduce threats to an acceptable level. Interests and relationships that it may be relevant to discuss with the practitioner's expert include:
 - Financial interests;
 - Business and personal relationships;
 - Provision of other services by the expert, including by the organization in the case of an external expert that is an organization.

In some cases, it may also be appropriate for the practitioner to obtain a written representation from the practitioner's external expert about any interests or relationships with the appropriate party(ies) of which that expert is aware. Relevant ethical requirements may also require the practitioner to obtain information, in writing, from the practitioner's external expert regarding interests, relationships or circumstances that may create a threat to that expert's objectivity.¹⁰

A128. The evaluation of whether the threats to objectivity are at an acceptable level may depend upon the role of the practitioner's 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

⁹ See Section 390 of the IESBA Code.

¹⁰ See, for example, paragraphs R390.5 and R390.12–17 of the IESBA Code.

PROPOSED NARROW-SCOPE AMENDMENTS TO IAASB STANDARDS ARISING FROM THE IESBA'S USING THE WORK OF AN EXTERNAL EXPERT PROJECT

apply safeguards to reduce threats to an acceptable level, for example, if a proposed practitioner's expert is an individual who has played a significant role in preparing the subject matter information.

A128A. Relevant ethical requirements may prohibit the practitioner from using the work of a practitioner's expert in certain circumstances. For example, the IESBA Code prohibits the practitioner from using the work of an external expert if the practitioner:¹¹

- (a) Is unable to determine whether the expert has the necessary competence or capabilities, or is objective;
- (b) Has determined that the 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.

...

Evaluating the Adequacy of the Practitioner's Expert's Work (Ref: Para. 52(d))

A133A. Paragraph 52(a) requires the practitioner to evaluate whether the practitioner's expert has the necessary competence, capabilities and objectivity for the practitioner's purposes. The requirement in paragraph 52(d) to evaluate the adequacy of the practitioner's expert's work is based on the presumption that the practitioner has determined that the expert has the necessary competence, capabilities and objectivity for the practitioner's purposes. See also paragraph A128A.

...

ISRS 4400 (REVISED), AGREED-UPON PROCEDURES ENGAGEMENTS

...

Requirements

...

Using the Work of a Practitioner's Expert

29. If the practitioner uses the work of a practitioner's expert, the practitioner shall: (Ref: Para. A46-A47, A50)
- (a) Evaluate the competence, capabilities and objectivity of the practitioner's expert; (Ref: Para. A47A)
 - (b) Agree with the practitioner's expert on the nature, scope and objectives of that expert's work; (Ref: Para. A48–A49)
 - (c) Determine whether the nature, timing and extent of the work performed by the practitioner's expert is consistent with the work agreed with the expert; and
 - (d) Determine whether the findings adequately describe the results of the work performed, taking into account the work performed by the practitioner's expert.

...

¹¹ IESBA Code, paragraph R390.21

Application and Other Explanatory Material

...

Using the Work of a Practitioner's Expert (Ref: Para. 29)

...

A47. A practitioner's expert may be an external expert engaged by the practitioner or an internal expert who is part of the firm and therefore subject to the firm's system of quality management. Ordinarily, the practitioner may depend on the firm's system of quality management, unless:

- The practitioner'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.

The extent of that dependence will vary with the circumstances and may affect the nature, timing and extent of the practitioner's procedures with respect to matters such as:

- Competence and capabilities, through recruitment and training programs.
- The practitioner's evaluation of the objectivity of the practitioner's expert.
- Agreement with the practitioner's expert.

Such dependence does not reduce the practitioner's responsibility to meet the requirements of this ISRS.

A47A. Relevant ethical requirements may prohibit the practitioner from using the work of a practitioner's expert in certain circumstances. For example, the IESBA Code prohibits the practitioner from using the work of an external expert if the practitioner:¹²

- (a) Is unable to determine whether the expert has the necessary competence or capabilities, or is objective;
- (b) Has determined that the 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.

...

¹² IESBA Code, paragraph R390.21

International Standards on Auditing, International Standard on Auditing for Audits of Financial Statements of Less Complex Entities, International Standards on Assurance Engagements, International Standards on Review Engagements, International Standards on Related Services, International Standards on Quality Management, International Auditing Practice Notes, Exposure Drafts, Consultation Papers, and other IAASB publications are copyright of IFAC.

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