



AUASB Agenda Paper

Title:	AUASB Technical Work Plan Update	Date:	21 November 2022
ATG Staff:	Matthew Zappulla	Agenda Item:	2.0

Recommendations and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	Does the AUASB have any feedback on the details of AUASB priorities and projects/tasks outlined in the AUASB Technical Work Program presented at Agenda Item 2.1 .	All current and planned AUASB projects for 2022-23 are included in the work program and have been agreed with the AUASB Technical Team and AUASB Chair.
Question 2	Does the AUASB have any feedback on the Draft AUASB Agenda Consultation Feedback Statement presented at Agenda Item 2.2 .	The AUASB Technical Staff recommend that the AUASB Agenda Consultation Feedback Statement is published on the AUASB website.

Background and Previous Discussions on Topic

1. The ATG has updated the 2022-23 Technical Work Program to address changes since the September 2022 AUASB meeting, including:
 - (a) Key projects completed to date in 2022-23 and since the last AUASB meeting;
 - (b) A summary of strategic priorities for the 2022-23 year and the list of technical staff projects currently in progress, both for the AUASB and IAASB; and
 - (c) Other planned projects on the AUASB work program which have yet to commence.A summary of the AUASB Technical Work Program is contained in a PowerPoint slide pack included at **Agenda Item 2.1**.
2. The AUASB received a summary of the outcomes from the recent AUASB Agenda Consultation Process at the September 2022 AUASB Meeting. The AUASB Technical Staff have subsequently summarised the feedback from the Agenda Consultation process presented in a short external communication for AUASB consideration and recommend this is published on the AUASB website.

Matters for Discussion and ATG Recommendations

3. As of November 2022 the AUASB Technical Group (ATG) staff have identified 57 current or prospective projects to date for the current period, with approximately 75% of these connected to the six AUASB strategic priority areas included in the AUASB Agenda Consultation process earlier in 2022. 12 projects have been completed so far over the first 4-5 months of the 2022-23 reporting period, with 8 projects completed since the last AUASB meeting.

AUASB Agenda Paper

4. The ATG continues to maintain a detailed spreadsheet which tracks the staff working on each project and targeted timelines which is reviewed regularly by the AUASB Chair and Technical Directors. This is summarised for AUASB Board Member at Agenda Item 2.1 (using a standardised format). The ATG will continue to review and update this presentation quarterly to inform AUASB members of the progress against the 2022-23 AUASB Technical Work Program and following each AUASB meeting publish the updated work program on the AUASB Website.
5. Following the conclusion of the AUASB Agenda Consultation Feedback process held over May – July 2022 the AUASB supported that a short feedback statement¹ that summarised the AUASB's outreach and deliberations on the AUASB Agenda Consultation process was prepared for publishing on the AUASB website. A draft AUASB Agenda Consultation Feedback Statement is available for AUASB review at **Agenda Item 2.2**. The Draft Feedback Statement has been compiled based on the information previously presented to AUASB members at the September 2022 AUASB Meeting.

Collaboration with NZAuASB and other standard setters

6. The ATG has a regular dialogue with NZAuASB technical staff to identify projects and activities where sharing and collaboration of information should occur. The AUASB and NZAuASB Technical Directors last met on 18 October 2022 to identify and put in place plans to collaborate on common projects over the current period, and bi-monthly meetings are scheduled throughout the year to ensure coordination. In addition, through the joint membership of the AUASB and NZAuASB by each Board's Chair we regularly review and provide input into the NZAuASB work program, and vice versa.
7. The AUASB and NZAuASB technical staff continue to collaborate on IAASB projects through their roles as technical advisors to IAASB members in each territory and through the IAASB National Standard Setters forum.
8. The AASB and AUASB Technical Directors meet fortnightly to review and consult on AASB and AUASB priority areas. Additionally, a monthly AASB/AUASB Collaboration meeting is held between the AASB and AUASB Chairs and Technical Directors.

Next steps/Way Forward

9. Subject to changes requested by AUASB Members and agreed by the AUASB Chair, the ATG will arrange to have this latest version of the 2022-23 AUASB Technical Work Program and AUASB Agenda Consultation Feedback Statement published on the AUASB Website following the November 2022 AUASB meeting.

Materials Presented

Agenda Item	Description
2.1	AUASB Technical Work Program Update Summary
2.2 (*SP)	Draft AUASB Agenda Consultation Feedback Statement

*SP: AUASB Supplementary Papers Pack

A large, stylized graphic of the AUASB logo, which is a white hexagon with the letters 'AUASB' in bold, black, sans-serif font. The hexagon is set against a background of a blue and purple digital pattern with binary code (0s and 1s) and faint, glowing numbers and lines, suggesting a data-driven or technological theme.

AUASB

AUASB Work Program Update

November 2022

Board activities and timelines set out in this document are subject to change in accordance with the Board's decisions, such as changes in project priorities. To access project pages for these projects, where available, click on the project name in the table.





2022-23 AUASB Strategic Priority Areas



2022-23 AUASB Strategic Priority Areas



Australian Government
Auditing and Assurance Standards Board

Priority Area	Key Topics	PAG	IAASB	FRC
IAASB Agenda	Audit Evidence, Going Concern, Fraud		✓	
Sustainability Assurance	IAASB Standards, Local Guidance, Profession Wide issues	✓	✓	✓
Audit Quality	FRC Audit Quality Action Plan, ASIC Inspections, Audit Committee Feedback			✓
Technology	Technology PAG, Guidance for Assurance Practitioners	✓	✓	
Public Sector	Public Sector PAG, Engagement Leader Responsibilities, Performance Audits	✓		
Scalability	Audits of LCEs, Prescribed Reporting, Not for Profits		✓	

2022-23 Technical Work Program

AUASB outputs / projects delivered to date

- AUASB Digital Standards Portal Update
- Joint submission on ISSB Sustainability Exposure Drafts
- *GS 003 – Update of AFSL Guidance Statement*
- *Technology PAG – Data Reliability Guidance*
- *AICD / AUASB Audit Committee Publication on the periodic review of external auditors*
- *ANCAAR-AUASB Regulation Workshop and Research Report* #
- *IAASB Submission on PIE/Listed Entity proposed audit report amendments*
- *AUASB Stakeholder Forums*
- *Inaugural AUASB Sustainability Assurance Update*
- *AUASB Chair response to latest ASIC Inspection Report*

Included on November 2022 AUASB Agenda

2022-23 Technical Work Program

Key AUASB outputs / projects in progress

- KAM Reporting beyond Listed Entities #
- AUASB Agenda Consultation Process #
- GS 023 - Engagement Leader Guidance for Public Sector auditors #
- Qualitative interviews of Audit Committee Chairs on perceptions of Audit Quality #
- Update of AUASB Domestic Standards for revised QM Standards
- Audit Engagement Related Disclosures
- Update of ASA 700 for AASB 101 changes #
- Update of GS 019 *Auditing Fundraising*

Revenue of Not-for-Profit Entities #

- ISA 500 Audit Evidence - AUASB ED & Submission #
- Review Legislative drafting of assurance requirements (with Office of Parliamentary Counsel)
- Upload of AUASB Guidance Statements to Standards Portal

Included on November 2022 AUASB Agenda



2022-23 Technical Work Program

Outputs / projects yet to commence

- ASA 600 Standard & Implementation Support
- Response to PJC Recommendation on Internal Controls
- Review of GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*
- Post Implementation Review of ASAE 3500 *Performance Engagements*
- New Review Engagement Guidance for NFPs
- Update of APRA related Guidance Statements

2022-23 Technical Work Program

IAASB Projects

- ISA 570 - Going Concern
- ISA 240 - Fraud
- Separate Standard for the Audit of Less Complex Entities
- Proposed ISSA 5000 on Sustainability
- Update of IAASB Standards for IESBA PIE & Listed Entity Definition
- 2024-2027 IAASB Strategy and Work Plan
- Evaluate proposed changes to the audit report in IAASB Projects



Collaboration with the AASB

Sustainability Project Advisory Panel

NFP private sector financial reporting framework (Tier 3)

Public sector financial reporting framework

Service performance reporting

Digital financial reporting

Intangible assets

Going concern disclosures

Fair value measurement for public sector entities

NB: Items in italics currently in progress with the AASB



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AUASB

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Australian Government

Auditing and Assurance Standards Board



AUASB Agenda Paper

Title:	IAASB – December 2022 meeting	Date:	24 November 2022
ATG Staff:	Rene Herman	Agenda Item:	4.0

Recommendations and Questions for the Board

Question for the Board	ATG Recommendation Overview
Do AUASB Members have feedback on the key matters to be discussed by the IAASB at their upcoming December 2022 IAASB meeting as outlined in Agenda Item 4.0.1 ?	AUASB Technical Group (ATG) staff have reviewed all the IAASB December 2022 Board Papers, discussed them with the AUASB Chair and have highlighted the key issues on the current IAASB which require AUASB consideration in Agenda Item 4.0.1 .

Matters for Discussion

1. The purpose of this Agenda Item is to highlight to the AUASB the main areas of consideration, due to be discussed by the IAASB at the upcoming December 2022 IAASB meeting; and to seek AUASB input on various elements of the IAASB's proposals.
2. The AUASB Technical Group (ATG) will walk AUASB members through the PowerPoint summary slides which summarise the key points in the current IAASB meeting papers at **Agenda Item 4.0.1** at the November 2022 AUASB meeting. As indicated in the PowerPoint summary – some areas have been included for AUASB information, and some areas seek AUASB input.
3. Where the ATG is specifically seeking AUASB input, this is highlighted within a blue text box (some text boxes may contain questions / some may contain notes).
4. Depending on where a project is within the cycle, AUASB members have been provided with links to the draft standards. The ATG have specified where the links are for information purposes only, or where the ATG considers that the time is appropriate for AUASB members to review the draft standard. The level of detail of such review is up to each AUASB member.
5. **For the current December 2022 IAASB meeting, the ATG encourages AUASB members to read the *requirements* of the draft ISA 570 (Going Concern).**

Agenda Item	Description
4.0.1	PowerPoint summary - IAASB December 2022 meeting papers

IAASB Topics – December 2022

1. Sustainability- Agreement on principles and drafting of priority areas [Slides [2-8](#)]
2. IAASB Strategy and Work Plan [Slides [9-10](#)]
3. LCE – Group audits, quantitative amendments, risk assessment [Slides [11-14](#), Agenda Item 5 and Slide [25](#)]
4. Going Concern – decisions on key issues (Close to final drafting available, **ATG encourages that AUASB members read the proposed requirements** for info purposes [link provided](#)) [Slides [15-17](#) and Agenda Item 4.1/Slide [22](#)]
5. Fraud – progression of issues (‘Moving’ drafting available, for info purposes [link provided](#)) [Slides [18-19](#) and Agenda Item 4.1/Slides [23-24](#)]
6. PIE project – track 2 – differential requirements (IESBA changes/PIE) [Slide [20](#)]



Sustainability – ISSA 5000

- Significant Progression (underlined areas – see following slides)
 - Key principles determined
 - Most priority areas of the standard have been drafted and are up for discussion:
 - Definitions
 - Acceptance and Continuance
 - Evaluation of description of applicable criteria
 - Evidence and Documentation
 - Planning including materiality
 - Consideration of misstatements
 - Risk Identification
- Not a lot of IP/new material (ISAs/ISAES, EER Guidance)

Sustainability – ISSA 5000

Key principles

Key principles

- Included verses not included
 - Addresses a priority area vs addresses a concept that a practitioner with knowledge of assurance framework and sustainability reporting would be expected to know (e.g.: no description of types of procedures)
 - Suitable for overarching standard vs context on sustainability topics/frameworks
 - Application material addresses the “why” and “what” vs the “how” which is more appropriate for a first time guide.

Questions for the AUASB:

- Does the AUASB have any views on the key principles as outlined above – particularly around the first bullet?



Sustainability – ISSA 5000

Key principles

Aggregation and Disaggregation of sustainability information

- Importance: consistency/quality/affects work effort – key concepts and principle
- Financial reporting: frameworks provides baseline for consistency (the notion of “classes of transactions, account balances and disclosures” – drives level at which work is performed)
- Sustainability: Applicable criteria should address how disclosures are disaggregated, but framework criteria may lack specificity about disaggregation because of the varying nature of sustainability information, topics, industries,
- Proposing: Responsibility of the practitioner to determine the aggregation/disaggregation based on circumstances of an engagement (see next slide). [Purpose of determination – materiality; I&A ROMM at assertion level(RA) and response; evaluate misstatements]

Questions for the AUASB:

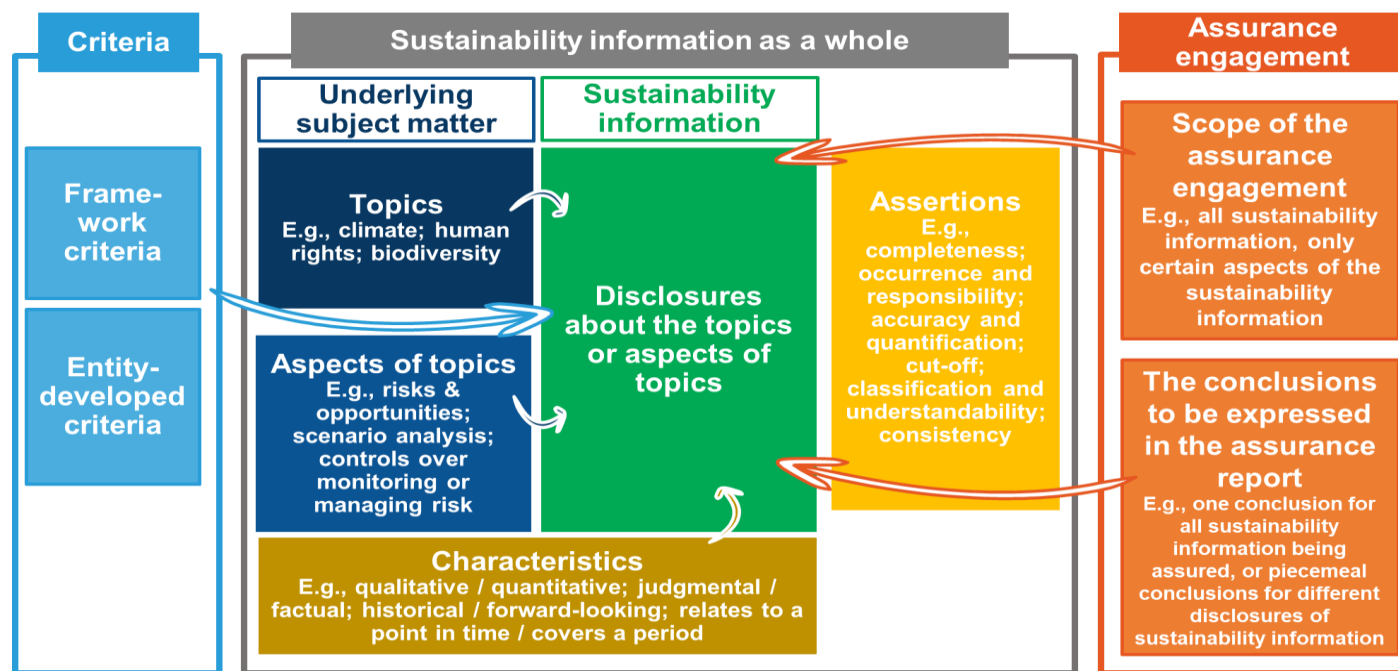
- Does the AUASB agree that the practitioner should determine the aggregation or disaggregation of the information that is appropriate in the circumstances of the engagement, i.e., that Proposed ISSA 5000 should not be prescriptive about how the information should be disaggregated?



Sustainability – ISSA 5000

Disaggregation

- Judgement of practitioner to determine disaggregation of disclosures about topics or aspects of the topics – diagram reflects some considerations/factors that may impact practitioners judgement about how to disaggregate disclosures:



- Disclosures to be defined as:** The entity's information about topics and aspects of the topics within the sustainability information subject to the assurance engagement. [AM will support the definition indicating examples and characteristics of topics and examples of aspects of topics]

Sustainability – ISSA 5000

Application of Aggregation and Disaggregation in performance of engagement

	Reasonable Assurance	Limited Assurance	Aggregated/ Disaggregated Disclosures	
Materiality	Determine materiality for disclosures. <ul style="list-style-type: none"> <i>Not required to determine materiality for disclosures that will be aggregated for purposes of concluding (i.e., disclosures “as a whole”), because impracticable to do so.</i> <i>No requirement to address performance materiality.</i> 		Disaggregated disclosures	
Risks	Identify and assess risks of material misstatement at the assertion level for disclosures. <ul style="list-style-type: none"> <i>Not required to identify and assess risks of material misstatement for the disclosures that will be aggregated for purposes of concluding</i> 	Identify disclosures in the sustainability information where material misstatements are likely to arise.	Disaggregated disclosures	
Evaluating misstatements	Evaluate whether misstatements are material: <ul style="list-style-type: none"> For each disclosure; and For the disclosures that will be aggregated for purposes of concluding (i.e., disclosures “as a whole”). 		Disaggregated disclosures	Aggregated disclosures

Sustainability – ISSA 5000

Materiality and misstatements

- Same for Limited and Reasonable assurance (LA and RA) – based on information needs of users
- Materiality will be determined for each disclosure – i.e. disaggregated level. No requirement to determine materiality for aggregated disclosures (sustainability info may be too dissimilar)
- No requirement to determine performance materiality – not always possible to determine for all the types of information to be covered, however application material to consider aggregation risk at planning phase (when quantitative factors are applicable)
- AM to be included to explain considerations in determining materiality for qualitative disclosures – adapted from ISAE 3000 and EER guidance
- Misstatements will be evaluated for each disclosure and for the disclosures in aggregate – in evaluation of misstatements, EER Guidance has been highly leveraged so that guidance is sustainability specific particularly around qualitative factors and forward-looking information (evaluation uncertainty)

Questions for the AUASB:

- Does the AUASB have any comments on the way materiality will be addressed in the proposed standard?



Sustainability – ISSA 5000

Evidence and Documentation

1. Evidence

- Large parts of Proposed ISA 500 and also elements of EER guidance
- specific application material has been developed to describe considerations that may be applicable in obtaining evidence for qualitative information and forward-looking information
- Using work of management's expert – much the same content as proposed ISA 500 (evaluate competence/capability/objectivity, obtain understanding of work performed, obtain understanding how used by management)

Question for the AUASB:

- Discussion around approach for management's expert – are the requirements and AM per Proposed ISA 500 appropriate for sustainability engagements with such a broad number of subject matter?

2. Documentation

- In ISAs – ISA 230 and in individual standards as applicable
- Proposed ISA LCE – upfront in general requirements section
- ISSA – undecided

Question for the AUASB:

- Does the AUASB have any views on the location of the documentation requirements – upfront or in specific parts?



IAASB Strategy and Work Plan

- 3-year period 2024 – 2027
- Full card 2023 (Slide [10](#)) and 2024, potential for 1 new project 2024
- Almost all standards are up for consideration – no preference reflected
- Mixed views about implementation support materials, noting primary focus and priority is on standard setting
- Consultation paper will come out in January – 90-day comment period – will bring to AUASB for discussion at March 2023 AUASB meeting

Note to AUASB:

- At this stage, we don't expect much change to draft strategy and work plan. A fulsome discussion to be had with the AUASB at the March 2023 meeting including discussion around:
 - Thoughts on IAASB implementation support role
 - Timing of workplan, thoughts/prioritisation on next projects

IAASB Strategy and Work Plan

Work plan – next year (for AUASB information purposes)

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



LCE Audit Standard

- Group Audits – Exposure Draft (Refer Agenda Item 5 / Slide [25](#))
- Quantitative criteria – update to authority (Slide [12](#))
- Proportionality of standard being considered – Risk Assessment (Slides [13-14](#))
 - At the time of ED LCE, stakeholders had considerable concerns with the proportionality of the Risk Assessment Part of the proposed LCE standard. The ATG is not intending to take the AUASB through the suggested amendments to Risk Assessment, but has included some high-level summaries for the AUASBs information (to be digested at the discretion of individual members)

LCE – Quantitative thresholds (change to Authority of the standard)

- Include quantitative threshold section in the Authority
 - Additional safeguard to limit usage

Determining quantitative thresholds assists in the consistent and appropriate use of the ISA for LCE in a jurisdiction. This section anticipates that legislative or regulatory authorities or relevant local bodies with standard setting authority will determine quantitative threshold(s) for use of the ISA for LCE in their respective jurisdictions.

Guidance on setting quantitative thresholds is described further in the Authority Supplemental Guide. Quantitative thresholds may be set, for example, for all applicable entities within the jurisdiction in general, or different thresholds may be set for entities within a specific or certain industry(ies) or for certain classes of entities. In doing so, consideration is to be given to the specific prohibitions for use of the ISA for LCE and the qualitative characteristics of a typical LCE, as set out in this Part, as well as other specific circumstances or needs that may be relevant in the jurisdiction. While complexity is not always directly relative to the size of an entity or its activities, complexity often increases when key quantitative measures (e.g., revenue, total assets, employee numbers etc.,) increase.

*When determining thresholds for the use of the ISA for LCE, **existing definitions or thresholds in a jurisdiction may be considered**. The IAASB discussed thresholds established in various jurisdictions in determining the characteristics of a typical LCE. Such thresholds may be **useful as a reference point for jurisdictions in setting thresholds**. For example, the quantitative indicators described in the European Commission definition of a “small” enterprise* may be used by jurisdictions as a base to be adjusted for the circumstances of the jurisdiction. When the auditor is determining whether the ISA for LCE is appropriate to use, quantitative thresholds are to be considered in addition to the specific prohibitions in paragraph A.1. and the qualitative characteristics in paragraph A.3.*

*: The European Commission defines a small enterprise as an enterprise which employs fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed EUR 10 million

Question for the AUASB: What are the AUASBs views on the proposed revision to the Authority relating to quantitative thresholds? Is such a description meaningful and implementable?

LCE – Changes to Risk Assessment (for information only)

- Approach to understanding system of IC:

- (a) *Entity's Control Environment* – Given its fundamental importance, the requirement includes both an understanding of the control environment and evaluation of its appropriateness as a foundation for the entity's system of internal control
- (b) *Entity's Risk Assessment Process* – Included as part of inquiries with management and re-worded to be more direct and appropriate for a typical LCE
- (c) *Entity's Process for Monitoring Controls* – Included as part of inquiries with management and re-worded to be more direct and appropriate for a typical LCE
- (d) *Entity's Information System* – The requirements have been updated to be more direct and focus on the entity's process to prepare its financial statements, including a consideration for whether the entity's process appropriately supports the preparation of financial statements in accordance with the applicable financial reporting framework
- (e) *Entity's Control Activities* – approach consistent with ED-ISA for LCE but streamlined for readability

- Other Changes

- (a) *Combination of Risk Identification and Assessment* – Based on respondents' comments that this is normally performed in one step in an audit of an LCE
- (b) *Requirement to Explicitly Understand Effect of Inherent Risk Factors* – Taking into account respondents' comments that this step rarely adds any incremental value in the circumstances of a typical LCE, this has been removed and instead the concepts are included in EEM as considerations when assessing risks
- (c) *Presumption of Revenue Recognition Fraud Risk* – considering respondents' comments that the presumption that there are risks of fraud in revenue recognition may not always be appropriate for an LCE, the requirement has been revised to instead require an active determination of potential fraud risks resulting from types of revenue, revenue transactions or assertions

Note to AUASB: This slide has been provided for information purposes only. The ATG do not propose going through this slide at the AUASB meeting. Any offline AUASB member comments are welcome.



LCE – Changes to Risk Assessment

- Other points to note in relation to this section
 - (a) The Task Force did consider respondents' views about whether all risk assessment procedures would be required in every audit and concluded that they should be. To address respondent concerns, the Task Force proposes to include more EEM regarding scalability.
 - (b) The Task Force also considered whether requirements such as those when evaluating the design and implementation of identified controls should be different if a fully substantive approach should be taken and concluded it should not be, particularly when considering the extent of identified controls required in ISA 315
 - (c) The Task Force added EEM, or clarified existing EEM, in several areas, in particular to describe how requirements may be applied in a typical LCE. The Task Force has the view that, although the volume of EEM may be greater than in other parts of the proposed ISA for LCE, it is appropriate as risk identification and assessment was identified as a pain point by respondents and is fundamental to an audit

Note to AUASB: This slide has been provided for information purposes only. The ATG do not propose going through this slide at the AUASB meeting. Any offline AUASB member comments are welcome.



Going Concern

- Evaluation of management's assessment (Slide [16](#))
- Technology and Public Sector (Slide [17](#))
- Transparency in Reporting (Agenda Item 4.1 and Slide [22](#))

Note to AUASB

- ED – 570 is expected to be voted for exposure in March 2023 – the AUASB is strongly advised to read the draft requirements in the proposed standard and provide any comments [draft standard available [here](#)]

Going Concern

- Evaluation of management's assessment
 - Strengthened requirements for:
 - Risk assessment procedures irrespective of management's assessment
 - More robust evaluation of management's assessment – challenging methods, assumptions, data and evaluation of management bias
 - Evaluation of management's plans for future actions (if events/conditions identified): feasibility, intent and ability
 - New requirement where financial support will be provided by a third/related party – auditor to evaluate intent and ability to provide such support
 - New requirement if auditor identifies conditions/events that management has not previously identified:
 - Request management to revise assessment
 - Perform additional procedures on revised assessment

Question for the AUASB:

- Is the new requirement to evaluate intent and ability of financial support by third parties workable?



Going Concern – other matters

- Technology addressed through application material (e.g. cyber risks, predictive models)
- Public Sector
 - Application material to address there may be additional disclosure requirements for public sector entities
 - *In the public sector, the auditor may need to have regard to public sector financial reporting disclosure requirements related to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern. For example, in certain jurisdictions public sector entities may be required to report on long-term fiscal sustainability of a public sector entity's finances and disclose whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.*

Questions for the AUASB:

- While the AUASB has recently issued GS 023 which contains detailed guidance in relation to GC and that the ISAs are sector neutral, does the AUASB consider there is essential guidance for the public sector needed within ISA 570?



Fraud

- Consideration of new requirements where fraud / suspected fraud (Slide [19](#))
- Transparency in Reporting (Agenda Item 4.1 and Slides [23-24](#))

Fraud

- To respond to stakeholder requests seeking clearer direction on how to respond to fraud / suspected fraud, the taskforce is considering the inclusion of additional procedures required where a fraud/suspected fraud is identified:
 - Revision of risk assessment (if applicable)
 - Design and perform (additional) further audit procedures
 - Determine existence of control deficiencies
 - Determine additional responsibilities under law, regulation or relevant ethical requirements regarding the entity's non-compliance with laws or regulations
 - Communicate with those charged with governance
 - Communicate to regulatory and enforcement authorities, as required
 - Consider implications for other aspects of the audit
- Additionally, when the auditor determines the implications for the audit engagement as a whole, this may include one or more of the following actions:
 - Obtain advice from legal counsel
 - Consider ISA 705 (Revised) implications
 - Withdrawing from the audit

Question for the AUASB: The AUASB's views on the proposed additional procedures and possible actions for consideration



PIE – track 2

- Objectives of track 2 and Taskforce proposals
 - Converge (to extent possible) concepts/definitions IESBA and IAASB
 - Definition of PIE from IESBA Code to be incorporated into ISQM 1 and ISA 200
 - Adopts publicly traded entity as replacement term for listed entity
 - Establish an objective for differential requirements (aligned with IESBA Code)
 - Incorporating a modified/tailored objective based on IESBA Code into application material of ISQM 1 and ISA 200
 - Updating CUSP with examples of circumstances when it may be appropriate to consider differential requirements
 - Determine whether to amend existing differential requirements for listed entities (case by case)
 - With new PIE definition in IESBA Code – prior concerns around global baseline have been addressed
 - Stakeholder feedback indicates support for changes
 - Results in alignment with IESBA regarding differential requirements
- Way forward: development of ED – further deliberations June 2023 IAASB meeting

Note to the AUASB: This slide has been provided for AUASB information, no specific feedback from AUASB members is being sought at this stage of the IAASB project as the IAASB is currently at an early stage of deliberation. Will be discussed at June 2023 AUASB meeting

Agenda Item 4.1 - Transparency through the auditor's report

- Transparency – Going Concern
- Transparency - Fraud

Questions for the AUASB:

- The AUASB is referred to Agenda Item 4.1 for a holistic discussion on transparency in reporting and for commentary on draft proposals
- ED – 570 is expected to be voted for exposure in March 2023 – the AUASB is strongly advised to read the draft requirements in the proposed standard and provide any comments [draft standard available [here](#)]



Going Concern – Transparency in auditor's report

- Transparency in auditor's report
 - Promotes global comparability/consistency
 - Separate section in auditor's report – under heading of GC (unless MURGC)
 - MURGC – then separate section under heading of MURGC
 - Eliminates confusion where to look – KAM/MURGC/EOM/Other
 - Considerations about original information in auditor's report where management is not forced into disclosures by the financial reporting framework:
 - Auditor describes how they evaluated management's assessment instead of how events/conditions were addressed
 - Reasons for differential reporting (for listed entity only)
 - Proportionality/scalability
 - Distinction between users that have access to information and those that do not
 - Nothing prevents the auditor from disclosing more content if they choose to
 - Note: NO differentiation in work effort



Fraud – transparency in auditor’s report

- **Refer Agenda Item 4.1**
- In September, the following disclosures were being presented to the IAASB :
 - The auditor’s responsibilities as it relates to fraud in the audit of the financial statements;
 - The identified and assessed fraud risks and the auditor’s response to the assessed risks; and
 - Identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud in the financial statements.

IAASB progression on Matters

- No progression on auditor’s responsibilities (if any)
- Identified and assessed fraud risks and auditor’s response
 - Essentially a KAM following requirements of ISA 701
 - Filter / threshold which risks – similar filter to ISA 701 (KAM) – significant auditor attention
 - so that only the most significant ROMMs due to fraud (fraud risks) would be communicated. Not having a filter may create an imbalance between the number of fraud risks communicated and other matters
 - Taskforces proposals not separate section – overshadowing KAM (could undermine/distract) but recognizing users wanted this:
 - Header to be Key Audit Matters including Fraud Risks
 - Subheading to indicate ROMM due to fraud (ISA 701 already requires appropriate subheadings)
 - See Appendix 3 to Agenda Item 4.1 (proposed illustration 2)

Fraud – transparency in auditor's report

- Identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud in the financial statements.
 - Taskforce recognizes further discussions necessary
 - At this stage thinking: communications of significant deficiencies only required for deficiencies related to a KAM
 - Taskforce has provided some indicative drafting based on whether financial statements provide disclosures to enable the intended users to understand the effect of the deficiency or not: not suggesting to bring to AUASB at this stage as expect to still change substantively

Question for the AUASB:

- This section will be discussed in conjunction with Agenda Item 4.1. Additionally, In relation to identified and assessed fraud risks and the auditor's response to the assessed risks, is the AUASB supportive of the direction?

[Note: the AUASB views on identified and assessed fraud risks and the auditor's response to the assessed risks was noted at the September 2022 AUASB meeting]



Agenda Item 5: LCE – Group Audits

Group Audits – Exposure Draft

- Included in Authority
 - Scope out component auditors
 - Specific characteristics

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	<p>The group has few entities or business units (e.g., 5 or less).</p> <p>Group entities or business units are limited to few jurisdictions (e.g., 3 or less).</p>
Access to Information or People	<p>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 auditor.</p>
Consolidation Process	<p>The group has a simple consolidation process. For example</p> <ul style="list-style-type: none">• Financial information of all entities or business units have been prepared in accordance with the same accounting policies applied to the group financial statements;-• All entities or business units have the same financial reporting period-end as that used for group financial reporting;-• There are no sub-consolidations; and• There are no complex intercompany or other consolidation adjustments.

- Exposure – 90 days. Australian Exposure – refer Agenda Item 5

Questions for the AUASB:

- Does the AUASB support the additional characteristics of a group audit as being proposed by the LCE working group? Members are specifically asked to comment on the quantitative criteria included under group structure and activities.
- The Board is referred to Agenda Item 4.2 for a discussion on the Exposure of this section of the standard.



AUASB Agenda Paper

Title:	Transparency in auditor's report (PIE, GC, Fraud)	Date:	9 November 2022
ATG Staff:	Rene Herman	Agenda Item:	4.1

Recommendations and Questions for the Board

Question No.	Question for the Board
Question 1	<p>What are the AUASB members views of the costs/benefits of additional disclosure in the audit report of considering (members are referred to Agenda Item 4.1.1):</p> <ul style="list-style-type: none">• boilerplate text• tailored text <p>Note to AUASB: One foundation discussion now will form the basis of future discussions on topics such as:</p> <ul style="list-style-type: none">• Public Interest Entities• Going Concern• Fraud

Background and Previous Discussions on Topic

The objective of this paper is to plan for and consider how the AUASB may respond to upcoming IAASB proposals as it relates to enhanced transparency in the auditor's report in relation to PIE, Going Concern and Fraud considering the objectives of the Auditor Reporting project which was to enhance the communicative value and relevance of the auditor's report.

The auditor's report is the key deliverable addressing the output of the audit process. As noted at the time of the Auditor Reporting project, users of the financial statements signalled that while the auditor's opinion on the financial statements is valued, many called for the auditor's report to be more informative and relevant.

In the IAASB's Discussion Paper on Going Concern and Fraud, it was highlighted that, from an audit standard setting perspective, the knowledge gap for users of the financial statements can only be addressed through more transparency in the auditor's report (i.e., the auditor provides more information within the auditor's report so that users better understand what the auditor did or the outcomes of certain procedures). Suggestions have been made, that to narrow the expectation gap in relation to users of the auditor's report and their expectations for what has been done in an audit, the auditor's report should provide more detail with respect to going concern and fraud.

Matters for Discussion and ATG Recommendations

Assessing the feasibility of future impacts on the auditor's report should not only be looked at on an individual basis but also from a holistic perspective. Individual assessments may appear appropriate on the face of it but looking at all impacts holistically may alter this view.

While fully supportive of transparency in the auditor's report there needs to be a balance in recognising demands from users of these reports, and a consideration that the extent of proposed changes may ultimately increase complexity, understandability, and length of the auditor's report, thereby diminishing the value in reporting.

The AUASB needs to consider whether they are supportive of the direction of the IAASB and if not, why not. There are mixed views on this topic and the ATG not does consider there is sufficient evidence-based information to form a definitive view (Appendix 1 at Agenda Item 4.1.1 to this paper supports this view).

HIGH LEVEL OVERVIEW OF CURRENT IAASB PROPOSALS IMPACTING THE AUDITOR'S REPORT

A. PIE PROJECT

The Exposure Draft proposes targeted revisions to ISA 700 and ISA 260 to respond to the revisions to the IESBA Code that require a firm to publicly disclose when a firm has applied the independence requirements for PIEs.

The IAASB have already issued this Exposure Draft to which the AUASB has already responded. The AUASB did not support the amendments to ISA 700 proposed in the IAASB ED. The AUASB did not consider that the proposed changes to the auditor's report are the most appropriate mechanism for this purpose (e.g. in Australia, the Independence Declaration a better option), and the proposed amendments may, rather than improving transparency, actually increase the risk of confusion by users.

B. GOING CONCERN

IAASB Proposals are not too dissimilar from what is currently disclosed in the auditor's report, detail contained in Appendix 2 (SP) at Agenda Item 4.1.2 to this paper. The key changes from extant are:

- Going concern will have a separate section in the auditor's report
- Boilerplate blanket statement where there is no material uncertainty
- All 'close calls' are now effectively a KAM (although not called a KAM) (Listed only)
- MURGC – enhanced disclosures effectively bring disclosures in line with those under KAM

The ATGs key concerns are around the boilerplate blanket statement and the differential reporting (i.e. reporting for Listed entities only) for 'close call' and MURGC scenarios.

C. FRAUD

Considerable uncertainty as to direction of proposals – to be followed up after IAASB December 2022 or March 2023 meeting.

D. OVERALL

Agenda Item 4.1.3 in the supplementary pack has been extracted from the December 2022 IAASB papers and provides a draft indicative auditor's report based on the current directions/discussions of the IAASB for all recent/current projects impacting the auditor's report (PIE, GC and Fraud).

EVIDENCE INFORMED STANDARD SETTING

The AUASB supports evidence based standard setting. The IAASB has done extensive information gathering in informing their decisions, including:

- Issuing a Discussion Paper – September 2020
- Hosting an Expectation Gap roundtable – September 2020
- Auditor Reporting Post Implementation Review – June 2021
- Academic Research

A summary of considerations / deliberations is included at Appendix 1 to this paper. Included within Appendix 1 (SP) to this paper are some of the AUASB considerations / positions previously expressed on this topic.

OVERALL POSITION

As described through Appendix 1 to this paper, there are significant mixed views regarding the benefits of issues related to additional disclosures by the auditor through the auditor's report. Additionally, academic research in this area is not definitive on the impacts to users through additional reporting by the auditor. Accordingly, the ATG does not consider there is sufficient evidence-based information to form a definitive view. On this basis the ATG considers that the AUASB should have a foundation discussion on the costs/benefits of additional disclosure in the audit report to form the basis of consideration of the matter in future projects.

Collaboration with NZAuASB and other standard setters

The AUASB have held discussions with and have shared this paper with the staff of the NZAuASB, this paper will be shared at the upcoming NZAuASB for discussion by the Board.

Materials Presented

Agenda Item	Description
4.1.1 (*SP)	Appendix 1: High level summary of considerations into the proposals of transparency in the auditor's report
4.1.2 (*SP)	Appendix 2: Going Concern reporting: summary of current IAASB proposals
4.1.3 (*SP)	Appendix 3: Illustrative Auditor's Report (for purposes of IAASB discussion only)

*SP: AUASB Supplementary Papers Pack



AUASB Agenda Paper

Title:	Consultation Paper – Exposure of the IAASB’s Group Audit part of the proposed LCE Standard	Date:	18 November 2022
ATG Staff:	Rene Herman	Agenda Item:	5.0

Questions for the Board

Question	Questions for the Board
1	Does the AUASB agree the process to approve out of session a Consultation Paper containing Exposure Draft LCE-Group Audits for an exposure period of approximately 70 days (refer paras 3-5 of this agenda paper)?
2	Does the AUASB have any feedback on the draft Consultation Paper as presented at Agenda Item 5.1 ?
3	Does the AUASB agree that there are no additional Australian specific questions required as part of this limited scope Exposure Draft process (refer paragraph 6 of this agenda paper)?
4	Does the AUASB agree with the suggested approach for outreach on this Exposure Draft as outlined in paragraph 7 to this paper (refer paragraph 7 of this agenda paper)?

Background

- As advised in the AUASB technical staff summary of the September 2022 IAASB Meeting (shared with AUASB Members via email on 21 September 2022), the IAASB agreed to remove the blanket prohibition on group audits from the [Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities](#) (Proposed LCE standard) and include group audit qualitative criteria which would be in addition to general qualitative criteria. Additionally, the IAASB agreed with a ‘bright line’ exclusion of group audits where component auditors are used. Members recognised that the use of component auditors may not always be an indication of complexity, but a ‘bright line’ was requested by respondents to the IAASB’s Proposed LCE Standard. Since group audits was not exposed as part of the Proposed LCE Standard, this section on Group Audits is now being separately exposed by the IAASB as a limited scope Exposure Draft.
- This Exposure Draft is due for discussion and vote to issue at the December 2022 IAASB meeting. At this stage the ATG expects that the IAASB will release this Exposure Draft mid-late January 2023. This AUASB Agenda Paper and the proposed AUASB Consultation Paper at **Agenda Item 5.1** is subject to changes being proposed by the IAASB at the upcoming December 2022 IAASB meeting. The reason for the ATG bringing this matter to the November AUASB meeting is owing to the timing of the release of the Exposure Draft and the shortened exposure period.

Matters for Consideration

AUASB Consultation Paper

- The ATG expect the AUASB to issue the IAASB Exposure Draft [draft of the group audit part of the standard presented to the IAASB at December 2022 available [here](#)] for comment in Australia without modification, with a wrap-around AUASB Consultation Paper to provide information about



the key IAASB proposals, as well as an overview of how the AUASB is requesting feedback from Australian stakeholders.

4. To ensure a suitable exposure period for stakeholder consideration of the IAASB's proposals (close to 70 days), AUASB Members will be requested to review and approve the AUASB Consultation Paper out-of-session in mid-late January 2023. The AUASB's draft expected Consultation Paper has been included for reference and early comment at **Agenda Item 5.1**.
5. The closing date for comments to the AUASB is expected to be late March 2023, to allow sufficient time for AUASB technical staff to collate feedback, and for the AUASB to consider and approve the AUASB's submission to the IAASB, which is due mid-April 2023.

Australian specific questions on Exposure

6. A series of questions on exposure will be included as part of the IAASB's Explanatory Memorandum. At a high-level, Australian stakeholders and the AUASB support the direction of the IAASB in relation to the inclusion of group audits within the scope of the Proposed LCE Standard. The ATG is not proposing any Australian specific questions on this narrow scope Exposure Draft.

AUASB Outreach on Consultation

7. The AUASB conducted outreach at the time of the Proposed LCE Standard, all AUASB feedback obtained at the time in relation to group audits has been considered in this LCE Group Audit Exposure Draft. The AUASB Consultation Paper will be shared on AUASB social media platforms, AUASB newsletters and the AUASB webpage. The Consultation Paper will be discussed by the AUASB at the March 2023 AUASB meeting as the AUASB deliberates and responds to the IAASB. The ATG does not intend to do any specific additional outreach on these proposals.

Collaboration with NZAuASB and other standard setters

8. Like the AUASB, the NZAuASB will be exposing the group audit element of the LCE Standard. The AUASB and NZAuASB staff will share feedback received from both jurisdictions and coordinate our responses to the IAASB where appropriate.

Next steps/Way Forward

9. The ATG expects to circulate the Consultation Paper to AUASB members for an out of session vote in mid - late January 2023 (timing dependent upon release of document by the IAASB).
10. AUASB comments are due to the IAASB by mid-April 2023. The ATG expects to bring any feedback received on this Exposure Draft as well as a draft response to the IAASB to the March 2023 AUASB meeting for further discussion.

Materials Presented

Agenda Item	Description
5.1	Draft AUASB Consultation Paper - Exposure of the IAASB's Group Audit part of the proposed LCE Standard



January 2023

Consultation Paper

Exposure of the IAASB's *Auditing for Audits of Financial Statements of Less Complex Entities: Group Audits (ISA for LCE Group Audits)*

Issued by the Auditing and Assurance Standards Board

Draft



Obtaining a Copy of this Consultation Paper

This Consultation Paper is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

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Draft

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Consultation Paper
Exposure of the IAASB's Auditing for Audits of Financial Statements of Less Complex Entities:
Group Audits (ISA for LCE Group Audits)

Important Note and Disclaimer

This Consultation Paper is issued by the AUASB to provide information to auditors and assurance practitioners about the Exposure of the IAASB's Auditing for Audits of Financial Statements of Less Complex Entities: Group Audits (ISA for LCE Group Audits).

This Consultation Paper does not establish or extend the requirements under an existing AUASB Standard(s) and is not intended to be a substitute for compliance with the relevant AUASB Standards with which auditors and assurance practitioners are required to comply when conducting an audit or other assurance engagement. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

Draft

CONTENTS

	<i>Paragraph</i>
Introduction	1-3
Objectives	4
ED ISA – LCE Group Audits	
Exposure of ED ISA – LCE Group Audits	5-6
Request for comment	7
Background to and AUASB approach to ED ISA – LCE Group Audits	
IAASB	8-9
AUASB	10-16
Outreach Activities	17
Appendix 1 – IAASB ED–ISA for LCE Group Audits (including Explanatory Memorandum)	
Appendix 2 – Questions on Exposure	

CONSULTATION PAPER

Exposure of the IAASB's Auditing for Audits of Financial Statements of Less Complex Entities: Group Audits (ISA for LCE Group Audits)

Introduction

1. In June 2021, the International Auditing and Assurance Standards Board (IAASB) issued [Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities](#) (ED ISA – LCE) which was open for public consultation until 31 January 2022. Since then, the IAASB has been evaluating feedback received from the exposure draft and other outreach activities. In its June 2022 and September 2022 meetings the IAASB discussed key areas of feedback and related revisions to targeted areas of the proposed standard. This included revisions to the Authority of the proposed standard taking into account the incorporation of audits of group financial statements (group audits).
2. Feedback from stakeholders strongly supported the inclusion of group audits as a part of the proposed standard and that a blanket prohibition was considered inappropriate. In the [AUASB's submission to the IAASB on ED ISA – LCE](#), the AUASB did not support the exclusion of group audits. The AUASB considered that the blanket prohibition disallowing the use of the proposed ED – ISA for LCE Standard on group audits was not justified, especially in the case of small, non-complex components of a group engagement. AUASB investigations highlighted that not all group audits are complex, and the exclusion of group audit engagements, particularly considering the recent changes made to the revised ISA 600, will restrict the usefulness of this standard for many 'simple' groups. The AUASB considered that the IAASB could establish some clearer criteria around which groups may be included in the scope of the proposed standard, in setting such criteria, the AUASB supported a 'bright lines' determination of which groups are within the scope of the proposed standard.
3. Overall feedback from stakeholders and analysis by the IAASB has led the IAASB to propose including group audits into the proposed standard subject to specified characteristics and with a 'bright line' exclusion where component auditors are used. The IAASB is now exposing the part of the proposed standard that covers group audits (ED ISA – LCE Group Audits).

Objective

4. The objective of this Consultation Paper is to expose ED ISA – LCE Group Audits and request comments.

ED ISA – LCE Group Audits

Exposure of ED ISA – LCE Group Audits

5. The IAASB version of the ED ISA – LCE Group Audits has been issued for comment in Australia by the AUASB (Appendix 1 to this Consultation Paper) without modification in accordance with the AUASB's [Due Process Framework](#).
6. The approach of "wrapping-around" the IAASB's proposed standard with an Australian Consultation Paper:
 - (a) Provides the best opportunity to obtain robust feedback from Australian stakeholders about significant matters at the optimal stage in the AUASB standard-setting process, which is dependent on a high quality IAASB standard. Our stakeholders' feedback will feed into the AUASB's formal feedback to the IAASB on ED ISA – LCE Group Audits. This feedback will then be used by the ED ISA – LCE Group Audits taskforce in determining the changes required to finalise the ED ISA – LCE standard.

Consultation Paper

Exposure of the IAASB's Auditing for Audits of Financial Statements of Less Complex Entities: Group Audits (ISA for LCE Group Audits)

- (b) Results in an Australian exposure process which closely follows the IAASB release and maximises stakeholder's time to consider the changes.
- (c) The final Australian standard could be issued at a very similar time to the international standard with the advantage being Australian entities have the same adoption response time as international entities.

Request for comment

- 7. The AUASB requests comments on all matters relating to ED ISA – LCE Group Audits as contained in Appendix 2 to this Consultation Paper. Stakeholders' responses will be used to inform the AUASB in their formal response to the IAASB on ED ISA – LCE Group Audits. Additionally, responses will be used in AUASB deliberations regarding the issuance of the final Australian standard, including assessing compelling reasons¹ for any Australian-specific enhancements.

Background to and AUASB approach to ED ISA – LCE Group Audits

IAASB

- 8. A background the original ED ISA – LCE is provided in the [Consultation Paper Exposure of the IAASB's Auditing for Audits of Financial Statements of Less Complex Entities \(ISA for LCE\); and Consideration of Possible alternative options for Australian LCE audits](#).
- 9. A detailed background on **ED ISA – LCE Group Audits** is included in the **IAASB's Explanatory Memorandum to ED ISA – LCE**.

AUASB

- 10. The AUASB has a strategic objective to develop, issue and maintain high quality Australian Auditing Standards. The AUASB takes input received from Australian stakeholders into account when preparing its submissions to the IAASB. The AUASB makes formal submissions on EDs issued by the IAASB to contribute to the setting of international auditing and assurance standards.
- 11. Throughout the development of ED ISA – LCE and ED ISA – LCE Group Audits, the AUASB has actively monitored and provided input into the development of the exposure drafts in accordance with its [International Strategy](#).
- 12. In accordance with its mandates under section 227 of the *ASIC Act 2001* and the Financial Reporting Council's (FRC) Strategic Direction, the AUASB's policy is to use, as appropriate, the IAASB's ISAs as a base from which to develop Australian Auditing Standards, unless there are compelling reasons not to do so; and to amend the ISAs only when there are compelling reasons to do so.
- 13. Compelling reasons fall broadly into two categories: legal and regulatory; and principles and practices considered appropriate in maintaining or improving audit quality in Australia. Compelling reasons are further guided by the AUASB's policy of [harmonisation with the standards of the New Zealand Auditing and Assurance Standards Board](#) (NZAuASB).

The AUASB will consider all stakeholder responses in the AUASB's submission to the IAASB. The AUASB will then actively monitor and influence as appropriate, any future IAASB amendments to ED ISA – LCE Group Audits before deliberating if any potential Australian compelling reasons are required to the final ISA LCE (including the group audit section) as part of its due process.

¹ Refer to paragraph 13 of this Consultation Paper for an explanation of compelling reasons.

Consultation Paper

Exposure of the IAASB's Auditing for Audits of Financial Statements of Less Complex Entities: Group Audits (ISA for LCE Group Audits)

14. Additionally, the AUASB may decide to re-expose all or part of the proposed standard should it deem the changes from the ED originally published are significant, whether due to changes made by the IAASB or Australian specific changes the AUASB proposes to make in accordance with the “compelling reasons” test. Any decision about the timing or nature of re-exposure will be made by the AUASB after the IAASB has finalised its proposed standard and will be subject to the usual AUASB due process.
15. ED ISA – LCE Group Audits will be open to stakeholders for a **70-day comment period** closing in **late March 2023**. This is to allow stakeholders time to respond to the AUASB on the ED, for the AUASB technical group to collate all feedback and for the AUASB to consider and approve our submission to the IAASB due mid-April 2023.
16. At the completion of the exposure period and consultation process, the AUASB will consider stakeholders' submissions:
 - to inform us when developing our response to the IAASB on their ED; and
 - where the AUASB determines that a compelling reason exist, to inform us as to whether modifications may be required if the final standard is adopted, where considered appropriate.

Outreach Activities

17. The AUASB conducted outreach at the time of ED ISA – LCE, all AUASB feedback obtained at the time in relation to group audits has been considered in ED ISA – LCE Group Audits. ED ISA – LCE Group Audits will be shared on AUASB social media platforms, AUASB newsletters and the AUASB webpage. The Exposure Draft will be discussed by the AUASB at the March 2023 AUASB meeting. The AUASB welcomes any additional comments on ED ISA – LCE Group Audits, but due to the narrow scope of the Exposure Draft no dedicated outreach sessions are planned.

* *

Appendix 1

[include here the International EM/ED]

Appendix 2

[include here the Questions on exposure extracted from the international EM – also include Australian specific questions (standard ones)]

Draft



AUASB Agenda Paper

Title:	Public Sector Audit Issues: Role and Responsibilities of the Signing Officer/ Engagement Leader (GS 023 update)	Date:	28-29 September 2022
ATG Staff:	Johanna Foyster	Agenda Item:	6

Recommendations and Questions for the Board

Question No.	ATG Recommendation	Question for the Board
Question 1	That the AUASB note the outcomes from the recent AUASB Public Sector Project Advisory Group (PAG) meeting and support the AUASB Technical Group's (ATG's) planned steps to finalise the proposed new GS 023 guidance.	Does the AUASB have any comments or questions concerning matters raised by the Public Sector PAG or the ATG's plan to finalise the proposed new GS 023 guidance?

Background and Previous Discussions on Topic

1. The AUASB at its September 2022 meeting received an update on the project to develop additional guidance on the responsibilities of the Signing Officer / Engagement Leader in the public sector under [ASA 220 Quality Management for an Audit of a Financial Report and Other Historical Financial Information](#), for inclusion in an updated GS 023.

Refer to [Agenda Item 6](#) of the September 2022 meeting for further background on the key matters to be addressed by the proposed new guidance.

Matters for Discussion and ATG Recommendations

2. Subsequent to the September 2022 AUASB meeting, the ATG developed a first draft of the proposed new guidance, which was considered by the Public Sector PAG at its October 2022 meeting.
3. Feedback provided by the PAG at the meeting, included the following:
 - PAG members requested further amendments to allow for the guidance to be more scalable to cater for different scenarios that may present in the different Federal, State or Territorial jurisdictions in Australia. Audit Offices will differ based on the applicable legislative audit mandate, individual Audit Office delegations and/or authorisations of duties, functions and powers of the Auditor-General to individuals in the Audit Office and/or to Audit Service Providers, and application of different audit delivery models (for example, whether external Audit Service Providers form part of the engagement team or not).
 - Some Audit Offices requested further guidance to clarify the Signing Officer's role and responsibilities for managing quality on an audit engagement, particularly in

circumstances where the ASA 220 Engagement Partner role has been assigned to another individual in the Audit Office (in the public sector referred to as an 'Engagement Leader') or contracted out to an Audit Service Provider.

- Further clarification around the role and responsibilities of the Engagement Partner of an Audit Service Provider that has been contracted to perform an audit engagement or audit procedures on behalf of the Auditor-General, in circumstances where the Audit Office (statutory auditor) retains responsibility for signing and issuing the final Auditor's Report.
- A couple of Audit Offices requested more time to review the proposed guidance (citing October-November were a busy time for Audit Offices finalising June year end work).

Collaboration with NZAuASB and other standard setters

4. As part of drafting the proposed new guidance, the ATG reviewed NZAuASB modifications to the New Zealand Quality Management Standards, to incorporate additional public sector specific definitions to PES 3 (the NZAuASB equivalent of ASQM 1). These modifications, which relate to the definitions of "Engagement Partner" and "Firm" are broadly consistent with the amendments proposed in the updated version of GS 023 presented, but differ slightly in some cases to the AUASB's terminology, as the AUASB's GS 023 has to apply to various different national, state and territorial Auditor-General Offices (as opposed to the scenario in New Zealand, in which there is a single Auditor-General's Office the NZAuASB needs to accommodate).

Next steps/Way Forward

5. The ATG will work with individual Audit Offices over the next couple of weeks to resolve any remaining issues raised by these Offices.
6. The ATG will process all PAG feedback and share an updated Draft of the proposed new guidance with the PAG for consideration and discussion/finalisation at a further PAG meeting planned to take place during the week ending 16 December 2022.
7. A final Draft of the updated GS 023, which will include the proposed new Engagement Leader guidance material, will be presented to the AUASB at its 15 March 2023 meeting for consideration and approval to issue.



AUASB Agenda Paper

Title:	Consultation Paper - Exposure of the IAASB's Proposed ISA 500 (Revised) <i>Audit Evidence</i>	Date:	28 Nov 2022
ATG Staff:	Marina Michaelides	Agenda Item:	7.0

Recommendations and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	Do the AUASB think there are any other additional matters that should be included as part of this Consultation Paper which covers Australian specific questions at Agenda Item 7.1 - Attachment 1?	N/A
Question 2	Does the AUASB approve the proposed AUASB Consultation Paper to expose the IAASB's Proposed ISA 500 (Revised) <i>Audit Evidence</i> (Agenda Item 7.1) for an exposure period of 115 days?	That the AUASB approve to issue the AUASB Consultation Paper included at Agenda Item 7.1 for a consultation period of 115 days.
Question 3	Do AUASB Members have any feedback on the proposed communication and outreach plan for the Consultation Paper to expose the IAASB's Proposed ISA 500 (Revised) <i>Audit Evidence</i> ?	N/A

Background and Previous Discussions on Topic

1. The AUASB has been updated on key matters at a number of Board meetings through the development of the IAASB ED since the ISA 500 *Audit Evidence* project proposal was approved by the IAASB in December 2020. Matters raised by the AUASB during the development phase through to final ED have been addressed by the AUASB Technical Group (ATG) and where appropriate discussed at the IAASB meetings through the Australian Public Interest Member.
2. In October 2022 the IAASB issued Exposure Draft ISA 500 (Revised) *Audit Evidence* (IAASB ED), with a 180 day exposure period with comments due by 24 April 2023.
3. The IAASB ED retains the principles-based approach and serves as an overarching standard that deals with the auditor's responsibilities relating to audit evidence when designing and performing audit procedures. As such the IAASB ED provides an important underpinning, or "reference framework", for auditors when making judgements about audit evidence throughout the audit.



Matters for Discussion and ATG Recommendations

4. The Consultative Paper at **Agenda Item 7.1** provides an overview of the proposed IAASB amendments, noting that the AUASB are issuing the IAASB ED without modification. It also includes an overview of how the AUASB is requesting feedback from Australian stakeholders on the proposed changes and their impact on the Australian assurance market.
5. The ATG are proposing a comment period of 115 days for the Consultation Paper, with comments due by 31 March 2023. This allows sufficient time to collate all feedback and for the AUASB to consider and approve the AUASB's submission to the IAASB due on 24 April 2023.

AUASB Specific Considerations

6. Australian stakeholders consistently provide feedback on the sufficiency of audit evidence and how to ascertain "how much is enough" and its interrelationship with appropriateness and persuasiveness. Paragraph 9 of the IAASB ED deals with the matter of what information is intended to be used as audit evidence and consideration of the source of the information and the relevance and reliability that are applicable in the circumstances.
7. Additionally, application material has been included in paragraphs A34, A37, A63 and A64 around evaluating the relevance and reliability attributes and the interrelationships with the attributes of accuracy and completeness. Due to these concerns the AUASB has raised an Australian specific question 1 (refer Agenda Item 7.1 - Attachment 1).

Education and Outreach of the AUASB Consultation Paper

8. The ATG are proposing a two staged approach to the communication and outreach with stakeholders on the proposed changes to the IAASB ED:
 - a. Stage 1:
 - i. Issue the approved Consultation Paper - Exposure of the IAASB's Proposed ISA 500 (Revised) *Audit Evidence* in early December 2022.
 - ii. ATG to release an educative Webinar in December 2022 about the key changes to and key themes in Proposed ISA 500 (Revised) *Audit Evidence*.
 - b. Stage 2:
 - i. ATG to hold roundtable events in late February and early March 2023 to elicit specific feedback from stakeholders on Proposed ISA 500 (Revised) *Audit Evidence* to assist with the AUASB submission to the IAASB.

"Compelling Reasons" Assessment

9. As this project is only at ED stage, it is too early to identify if there are any compelling reasons that may require modification to ISA 500 for Australia purposes. The ATG will continue to monitor the progression of the IAASB ED based on stakeholder feedback (including feedback from the AUASB) and compelling reasons will be considered before finalising the final ISA 500.
10. At this time the ATG are not aware of any matters that should be brought to the AUASB's attention which may be considered a compelling reason to modify the ISAs.



Timeline

28 Nov 2022	AUASB meeting to approve the Australian Consultation Paper.
5 December 2022	Issue Consultation Paper with a 115-day comment period closing 31 March 2023.
Mid Dec 2022	AUASB Educative Webinar – advertised via website and social media platforms.
Late February – Early March 2023	Roundtable events (online and in person) – advertised via website and social media platforms with some targeted advertising.
15 March 2023	Key Issues/Themes from outreach on IAASB ED ISA 500 discussed at Board meeting. AUASB to provide feedback on the direction of the IAASB submission.
31 March 2023	Comment period closes.
Mid-April 2023	Feedback summary and draft response to AUASB – form and timing of meeting to be determined
20 April 2023	Out of session AUASB approval of final response to IAASB.
24 April 2023	Submission due to IAASB.

ATG Recommendation

11. The ATG recommend that the AUASB approve to issue the AUASB Consultation Paper included at Item 7.1 for a consultation period of 115 days.

Collaboration with NZAuASB and other standard setters

12. Like the AUASB, the NZAuASB have requested feedback from New Zealand stakeholders on the IAASB's proposed amendments to ISA 500 (Revised) *Audit Evidence*, with comments requested by 15 March 2023. The AUASB and NZAuASB staff have agreed to use and promote an Educative Webinar and share feedback received from both jurisdictions and coordinate our responses to the IAASB where appropriate.

Next steps/Way Forward

13. Once approved, the AUASB Consultation Paper will be published on the AUASB website in early December 2022.
14. The ATG will endeavour to bring to the March 2023 AUASB meeting any key issues or themes the ATG have noted through completed outreach and develop a draft response to the IAASB for consideration out of session by mid-April 2023.

Materials Presented

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

December 2022

Consultation Paper

Exposure of the IAASB's *Proposed ISA 500 (Revised), Audit Evidence*

and

Proposed Conforming and Consequential Amendments to Other ISAs

Issued by the Auditing and Assurance Standards Board



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Consultation Paper

This Consultation Paper is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

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Important Note and Disclaimer

This Consultation Paper is issued by the AUASB to provide information to auditors and assurance practitioners about IAASB Exposure Draft *Proposed ISA 500 (Revised), Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs*.

This Consultation Paper does not establish or extend the requirements under an existing AUASB Standard(s) and is not intended to be a substitute for compliance with the relevant AUASB Standards with which auditors and assurance practitioners are required to comply when conducting an audit or other assurance engagement. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

Draft

CONTENTS

	<i>Paragraph</i>
Introduction	1-3
Overview	4-7
Request for Comments	8-9
Consultation Paper Questions.....	10
Background	
IAASB project and Key Proposals on Audit Evidence	11-14
Specific AUASB Considerations.....	15
Application	16
The AUASB's Approach in Seeking Stakeholder Feedback	17-23
Comment Closing Date	24-25
Additional Website Resources	26
ATTACHMENT 1- Consultation Paper Questions	
ATTACHMENT 2 - IAASB Exposure Draft, <i>Proposed ISA 500 (Revised), Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs</i> .	

CONSULTATION PAPER

Exposure of the IAASB's Proposed ISA 500 (Revised), Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs

Introduction

1. The International Auditing and Assurance Standards Board (IAASB) has issued *Exposure Draft, Proposed ISA 500 (Revised), Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs* (**IAASB ED**).
2. The Australian Auditing and Assurance Standards Board (AUASB) is seeking feedback from stakeholders to inform us when responding to the IAASB on the released IAASB ED, and to identify potential compelling reasons¹ to modify ISA 500 (Revised) for application in Australia.
3. This Consultation Paper provides an overview of how the AUASB is requesting feedback from Australian stakeholders on the proposed changes detailed in the IAASB ED, and their impact on the Australian assurance environment.

Overview

Purpose

4. The aim of this Consultation Paper is to:
 - (a) provide stakeholders with information about the IAASB ED;
 - (b) provide stakeholders with information as to how the IAASB ED is being exposed by the AUASB; and
 - (c) seek stakeholder feedback.

Materials issued as part of this Consultation

5. The following materials have been issued to seek Australian stakeholder feedback:
 - (a) AUASB Consultation Paper to the IAASB ED (this document); and
 - (b) [IAASB ED](#).
6. The IAASB ED includes the IAASB's Explanatory Memorandum (IAASB EM) which provides the full background to, and an explanation of, the IAASB's proposed amendments to ISA 500 (Revised).
7. The IAASB ED and the related IAASB EM are included within this Australian Consultation Paper as an attachment – refer to Attachment 2.

Request for Comments

8. The AUASB requests comments on all matters relating to the IAASB ED, but specifically in relation to the IAASB Exposure Draft² questions at Attachment 1 by 31 March 2023. Stakeholders' responses to these questions will be used to inform the AUASB in their formal response to the IAASB. Additionally, responses will be used in AUASB deliberations regarding the issuance of the final Australian standard, including assessing compelling

¹ Refer to paragraphs 22-23 for an explanation of compelling reasons.

² IAASB Explanatory Memorandum, *Section 3 Request for Comments*.

reasons³ for any Australian-specific enhancements. Stakeholders may address only specific questions relevant to them or raise matters not specifically addressed by the questions.

9. Stakeholders are requested to clearly indicate whether they agree or do not agree with the proposed amendments. Comments will be most helpful when they refer to specific paragraphs, include the reasons for the comments, and, when appropriate, make specific suggestions for any proposed changes to wording.

Consultation Paper Questions

10. Stakeholders are asked to respond to the AUASB on the questions contained in Attachment 1 to this Consultation Paper.

Background (Refer to IAASB Explanatory Memorandum, paragraphs 2-8, for detail)

IAASB's Project and Key Proposals on Audit Evidence

11. A strategic objective of the IAASB is to ensure the International Standards on Auditing (ISAs) continue to form the basis for high quality, valuable and relevant audits conducted worldwide by responding on a timely basis to issues noted in practice and emerging developments.
12. IAASB ED-500 is part of the IAASB's commitment to advancing audit quality globally and proposes to provide the auditor with a reference framework when making judgements about audit evidence throughout the audit. This includes clarifying the interaction between ISA 500 and the other International Auditing Standards.
13. The more significant changes proposed in ED ISA 500 have:
 - (a) Clarified the purpose and scope of the standard, through the introductory paragraphs and definitions and related application material and use of examples, including explaining the relationship with other standards.
 - (b) Developed a principles-based approach to considering and making judgments about information intended to be used as audit evidence and evaluating whether sufficient appropriate audit evidence has been obtained.
 - (c) Revised the definition of audit evidence, using the input-output model to determine what is audit evidence.
 - (d) Modernised ISA 500 to be adaptable to the current business and audit environment, while considering scalability for different circumstances, including the entity and the auditor's use of technology, such as automated tools and techniques.
 - (e) Emphasised the role of professional scepticism when making judgments about information intended to be used as audit evidence and evaluating the audit evidence obtained.
14. For a further understanding of the significant matters dealt with in the Consultation Paper stakeholders should refer to the IAASB EM - Section 2 paragraphs 2 to 61 below.

Specific AUASB Considerations

15. Australian stakeholders consistently provide feedback on the sufficiency of audit evidence and how to ascertain "how much is enough" and its interrelationship with appropriateness and persuasiveness. Paragraph 9 of the IAASB ED deals with the matter of what information is intended to be used as audit evidence and consideration of the source of the information and the relevance and reliability that are applicable in the circumstances. Additionally,

³ Refer to paragraphs 22-23 of this Consultation Paper for an explanation of compelling reasons.

application material has been included in paragraphs A34, A37, A63 and A64 around evaluating the relevance and reliability attributes and the interrelationships with the attributes of accuracy and completeness. To seek explicit feedback on this part of the IAASB ED the AUASB has included an Australian specific question in the AUASB Consultation Paper to the IAASB ED (Refer Attachment 1).

Application

16. It is proposed that the revised standard will be applicable for audits of financial statements for periods **beginning on or after approximately 18 months after the approval of a final ISA**. This application date corresponds with that of the equivalent ISA.

The AUASB's Approach in Seeking Stakeholder Feedback

17. The IAASB ED is issued for comment in Australia by the AUASB without modification.
18. The AUASB has a strategic objective to develop, issue and maintain high quality Australian Auditing Standards. In accordance with its mandates under section 227 of the *ASIC Act 2001* and the Financial Reporting Council's (FRC) Strategic Direction, the AUASB's policy is to adopt the IAASB's auditing standards (ISAs), unless there are compelling reasons not to do so; and to amend the ISAs only when there are compelling reasons to do so.⁴
19. The AUASB's approach, in accordance with the [AUASB International Strategy](#), is to actively influence the international standard setting process to produce international standards that serves as the most effective base possible from which to develop equivalent Australian Auditing Standards. As part of this strategy, the AUASB actively monitors the development of new IAASB Standards and revisions to IAASB Standards and provides continual feedback to raise issues with the IAASB throughout the international standard's development process.
20. The AUASB makes formal submissions on Exposure Drafts issued by the IAASB to contribute to the setting of international standards. Stakeholders' feedback in response to this Consultation Paper will be used to inform the AUASB in its formal response to the IAASB. Additionally, responses will be used in AUASB deliberations regarding the issuance of the final revised Australian Standards, including assessing compelling reasons for any Australian-specific enhancements.
21. Following the consultation process, influencing the development of ED IAASB and assessing implications for the Australian market (focusing on the need for any compelling reasons), the AUASB will consider for approval a revised ASA 500, which will be based on the final approved revised ISAs.
22. In accordance with the [AUASB Policy and Process for International Conformance and Harmonisation of Standards](#), international stands should only be modified if there are compelling reasons to do so. The Compelling Reason Test⁵ for modification of an international standard is triggered when the international standard does not reflect, or is not consistent with, Australian legal and regulatory arrangements, or principles and practices that are considered appropriate in maintaining or improving audit quality in Australia. Compelling reasons are further guided by the AUASB's policy of harmonisation with the standards of the New Zealand Auditing and Assurance Standards Board (NZAuASB). Any such changes must not result in a requirement that is lesser than or in conflict with the requirements of the equivalent international standard.

⁴ The AUASB's principles of convergence with the ISAs can be found in [AUASB Policy and Process for International Conformance and Harmonisation of Standards](#). For further background on the AUASB's mandate and strategic directive, and the principles and process adopted by the AUASB to develop Australian Standards based on equivalent ISAs, refer to the AUASB's [Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications](#).

⁵ Refer to [AUASB Policy and Process for International Conformance and Harmonisation of Standards](#), for an explanation of the compelling reasons for modification of international standards and application of the Compelling Reasons Test.

23. Any deletion from the international standards will be clearly noted, and any addition or other modification will be clearly marked as an Australian paragraph ("Aus" prefix). However, minor wording and spelling changes (as opposed to changes reflecting the use of significant terminology) need not be reflected in the Australian standard as a modification to the international standard where the intent remains unchanged.

Comment Closing Date

24. Comments to the AUASB will close **31 March 2023**. This is to allow stakeholders time to respond to the AUASB on the IAASB ED, for AUASB technical staff to collate all feedback, and for the AUASB to consider and approve our submission to the IAASB due on 24 April 2023.
25. At the completion of the exposure period, the AUASB will consider stakeholders' submissions:
- (a) to inform us when developing our response to the IAASB on their Exposure Draft; and
 - (b) where the AUASB determines that a compelling reason exists, to inform us as to whether modifications may be required when we are adopting the final standards.
26. The AUASB welcomes stakeholders' input to the development of Australian Auditing Standards and regards both supportive and critical comments as essential to a balanced review of the proposed standards.
27. Stakeholders are encouraged to access the websites of the [AUASB](#) and the [IAASB](#) to obtain further information, or contact the AUASB at enquiries@auasb.gov.au with any specific queries.

* *

ATTACHMENT 1

Overall Questions

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

Specific Questions

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

Request for General Comments

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

- (a) **Effective Date**—Recognising that ED-500 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of a final ISA. Earlier application would be permitted and encouraged. The AUASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ASA?

Australian specific questions

The AUASB is especially interested in stakeholders' views on:

1. Further to question 7 above and with reference to paragraph 9 of the IAASB ED, do Australian stakeholders think that anything further could be considered to address the issue of sufficiency of audit evidence and its interrelationship with the appropriateness and persuasiveness of audit evidence?
2. Have applicable laws and regulations been appropriately addressed in the proposed standard and are there any references to relevant laws or regulations that have been omitted?
3. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard? Stakeholder feedback will directly inform AUASB compelling reason discussions.
4. Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard? Stakeholder feedback will directly inform AUASB compelling reason discussions.
5. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of the proposed standard? If significant costs are expected, the AUASB would like to understand:
 - (a) Where those costs are likely to occur;
 - (b) The estimated extent of costs, in percentage terms (relative to audit fee); and
 - (c) Whether expected costs outweigh the benefits to the users of audit services?
6. What, if any, implementation guidance auditors, preparers and other stakeholders would like the AUASB to issue in conjunction with the release of ASA 500 (specific questions/examples would be helpful)?
7. Are there any other significant public interest matters that stakeholders wish to raise?

Exposure Draft
October 2022
Comments due: April 24, 2023

International Standard on Auditing

Proposed International Standard on Auditing 500 (Revised)

Audit Evidence

and

Proposed Conforming and Consequential Amendments to Other ISAs

About the IAASB

This Exposure Draft was developed and approved by the International Auditing and Assurance Standards Board (IAASB).

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants (IFAC).

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REQUEST FOR COMMENTS

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

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

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

This publication may be downloaded from the IAASB website: www.iaasb.org. The approved text is published in the English language.

EXPLANATORY MEMORANDUM

CONTENTS

	Page
Introduction	5
Background	5
Coordination with IESBA and Other IAASB Task Forces and Consultation Groups	6
Section 1 Guide for Respondents	7
Section 2 Significant Matters	7
Section 2-A – Public Interest Issues Addressed in ED-500	7
Section 2-B – Purpose and Scope of ED-500 and Linkage with Other Standards	9
Section 2-C – Technology	10
Section 2-D – Professional Skepticism	11
Section 2-E – Definitions	11
Section 2-F – Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence	13
Section 2-G – Relevance and Reliability of Information Intended to Be Used as Audit Evidence	14
Section 2-H – Evaluating the Audit Evidence Obtained	17
Section 2-I – Conforming and Consequential Amendments	18
Section 3 Request for Comments	20
Exposure Draft	
Proposed International Standard on Auditing 500 (Revised), Audit Evidence	22
Conforming and Consequential Amendments	55

Introduction

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

Background

2. Extant ISA 500 was considered as part of the IAASB's project to clarify its International Standards at the end of 2008. In addition, consequential amendments were made to the standard in 2018 as part of the IAASB's project to revise ISA 540¹ (i.e., to include material addressing external information sources, as defined).
3. The IAASB established a working group in January 2019 to identify and explore possible issues related to audit evidence, recognizing the evolution in the business environment and audit practice, including the use of technology by both the entity and the auditor. Based on initial feedback provided by the working group in June 2019, the IAASB was of the view that further information-gathering and targeted outreach activities were necessary to understand:
 - The extent to which the issues identified or other issues (if any) are creating challenges in practice, including the reasons or causes of those issues; and
 - How the issues may be best addressed.
4. In December 2020, the IAASB approved a [project proposal](#) to update ISA 500. Section II of the project proposal provides further background about the project, including the audit evidence-related issues that were identified and an explanation of the information-gathering, targeted outreach and other activities that formed the basis for the project proposal. The project objectives, which are described in Section IV of the project proposal, can be summarized as follows:
 - Clarify the purpose and scope of ISA 500 and explain its relationship with other standards.
 - Develop a principles-based approach to considering and making judgments about information to be used as audit evidence and evaluating whether sufficient appropriate audit evidence has been obtained, recognizing the nature and sources of information in the current business and audit environment.
 - Modernize ISA 500 to be adaptable to the current business and audit environment, while considering the scalability of the standard to a wide variety of circumstances regarding the use of technology by the entity and the auditor, including the use of automated tools and techniques.
 - Emphasize the role of professional skepticism when making judgments about information to be used as audit evidence and evaluating audit evidence obtained.
5. In determining the scope of the project to update ISA 500, the IAASB also reached certain conclusions regarding the following matters that would not be addressed as part of the project to remain focused on addressing the identified public interest issues and emphasizing the nature and role of ISA 500 within the suite of ISAs:

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

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

Coordination with IESBA and Other IAASB Task Forces and Consultation Groups

IESBA

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

IAASB Task Forces and Consultation Groups

8. Since the approval of the project proposal, coordination activities with IAASB Task Forces or Consultation Groups included:
 - Fraud Task Force: Discussions regarding the proposed conforming amendments to ISA 240⁴ and to align as closely as possible with the direction of proposed ISA 240 (Revised).
 - Professional Skepticism Consultation Group: Discussions focused on the approach taken in ED-500 on the exercise of professional skepticism and addressing auditor biases.
 - Technology Consultation Group: Discussions about examples in the application material to clarify how the principles of ED-500 may apply when using technology.

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

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

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

Section 1 Guide for Respondents

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

Section 2 Significant Matters

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

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

Key Public Interest Issue	Description of Changes Made to Address Identified Key Public Interest Issues	Relevant Paragraphs in ED-500
Responding to changes in the information that is being used by auditors, including the nature and source of the information	<p><i>Adaptability and Scalability</i></p> <p>Developing a principles-based approach when making judgments about information intended to be used as audit evidence, for both internal and external sources of information. In doing so, the IAASB developed a set of attributes of relevance and reliability to enhance the auditor's judgments relating to audit evidence that is adaptable and scalable to a wide variety of circumstances. For example, in evaluating the relevance and reliability of all information intended to be used as audit evidence, ED-500 focuses the auditor's attention on:</p> <ul style="list-style-type: none">• The attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose of the audit procedure.• The source of the information and how the source may affect the auditor's judgments regarding the attributes of relevance and reliability that are applicable in the circumstances.	9, A34–A62

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

Key Public Interest Issue	Description of Changes Made to Address Identified Key Public Interest Issues	Relevant Paragraphs in ED-500
Fostering the maintenance of professional skepticism when making judgments about information to be used as audit evidence and sufficient appropriate audit evidence	<p><i>Fostering the Appropriate Exercise of Professional Skepticism</i></p> <p>Emphasizing the importance of professional skepticism, including when:</p> <ul style="list-style-type: none"> • Designing and performing audit procedures in a manner that is not biased; • Evaluating the relevance and reliability of information intended to be used as audit evidence; and • Considering all audit evidence obtained, as a basis for concluding whether sufficient appropriate audit evidence has been obtained. 	4, 8(a), 9, 13, A19–A23, A43–A44, A51, A53, A57, A59–A62, A84–A88

10. In its deliberations on ED-500, the IAASB considered the effects on auditor behavior of the proposed changes related to the evaluation of information intended to be used as audit evidence and the sufficiency and appropriateness of audit evidence obtained. The IAASB is of the view that the proposed revisions in ED-500, in addressing the identified key public interest issues as described in the table above and as further explained in Sections 2B-2H below, collectively will lead to enhanced auditor judgments when obtaining and evaluating audit evidence.
11. The collection of proposed revisions also reflects the nature and role of ED-500 within the suite of ISAs. Paragraphs 8–14 of ED-500 provide the requirements that address the auditor's overarching responsibilities relating to audit evidence when designing and performing audit procedures, recognizing the interrelationship between ED-500 and other ISAs with respect to obtaining and evaluating audit evidence. The application material provides further explanation of the underlying concepts and guidance for implementing the requirements, including, as necessary, explaining what the requirements mean or intend to cover. The IAASB is interested in obtaining stakeholders' views about whether ED-500 achieves an appropriate balance of requirements and application material.

Section 2-B – Purpose and Scope of ED-500 and Linkage with Other Standards

12. The IAASB's information gathering and targeted outreach activities indicated that stakeholders supported clarifying the purpose and scope of ISA 500, and its linkage with other standards, in particular ISA 330.

Purpose and Scope of ISA 500

13. Extant ISA 500 explains what constitutes audit evidence in an audit of financial statements, and deals with the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. It applies to all audit evidence obtained during the course of the audit. Extant ISA 500 also

states that other ISAs deal with specific aspects of the audit, the audit evidence to be obtained in relation to a particular topic, specific procedures to obtain audit evidence, and the evaluation of whether sufficient appropriate audit evidence has been obtained.

14. ED-500 retains this principles-based approach and serves as an overarching standard that deals with the auditor's responsibilities relating to audit evidence when designing and performing audit procedures (paragraph 1 of ED-500). Such responsibilities include evaluating the relevance and reliability of information intended to be used as audit evidence and evaluating the audit evidence obtained. In this regard, the IAASB noted that ED-500 provides an important underpinning, or "reference framework," for auditors when making judgments about audit evidence throughout the audit.
15. As explained in paragraph A2 of ED-500, audit procedures include risk assessment procedures, further audit procedures and other audit procedures that are performed to comply with the ISAs.

Linkage with Other Standards

16. ED-500 (paragraph 2) retains important links to ISA 200.⁵ ISA 200 states that, as the basis for the auditor's opinion, the ISAs require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. To obtain reasonable assurance, the auditor is required to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.⁶
17. ED-500 (paragraph 3) also retains the link to other ISAs that may address specific matters and to the auditor's overall conclusion in ISA 330 about whether sufficient appropriate audit evidence has been obtained. The Appendix to ED-500 includes examples of other ISAs that may address the audit evidence to be obtained for specific matters.

Section 2-C – Technology

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

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

⁶ ISA 200, paragraph 17

Section 2-D – Professional Skepticism

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

Section 2-E – Definitions

Audit Evidence

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

Sufficiency and Appropriateness of Audit Evidence

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

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

Interrelationship of the Sufficiency, Appropriateness and Persuasiveness of Audit Evidence

28. The project proposal indicated that the IAASB would explore the relevancy of the notion of the "persuasiveness" of audit evidence in the context of ISA 500, given the auditor's responsibility to obtain more persuasive audit evidence the higher the auditor's assessment of risk in accordance with ISA 330.⁷ The IAASB supported introducing the concept of persuasiveness in ED-500 but not a definition of the term. The IAASB added application material (paragraphs A6-A9 of ED-500) to explain the interrelationship of these concepts, including factors that may affect the sufficiency and appropriateness of audit evidence, and therefore its persuasiveness.

Other Definitions

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

⁷ ISA 330, paragraph 7(b)

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

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

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

Types of Audit Procedures

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

⁹ ISA 315 (Revised 2019), paragraph 13

¹⁰ ISA 540 (Revised), paragraph 18

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

Selecting Items for Testing

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

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

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

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

Sources of Information

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

Attributes of Relevance and Reliability

45. Paragraph A53 of ED-500 explains that the quality of audit evidence depends on the relevance and reliability of the information upon which it is based. Accordingly, the auditor is required to consider the attributes of relevance and reliability of the information that are applicable in the circumstances as part of the auditor's evaluation in accordance with paragraph 9 of ED-500. Whether, and the degree to which, certain attributes are applicable in the circumstances is a matter of professional judgment.
46. Paragraphs A54-A62 of ED-500 describe the attributes of relevance and reliability, including factors that affect the auditor's professional judgment regarding the attributes that are applicable in the circumstances.
47. As described in paragraph 42 above, the IAASB cautioned against creating an unnecessary burden on auditors in evaluating the relevance and reliability of information. In this regard, the IAASB emphasized in its deliberations that all of the attributes of relevance and reliability may not be applicable in the circumstances and that the attributes in ED-500 are not intended to be used as a checklist.
48. The IAASB also discussed concerns about the auditor's documentation of the evaluation of relevance and reliability and the consideration of the attributes that are applicable in the circumstances. Paragraph A40 of ED-500 was added to explain that the requirements in ISA 230¹¹ about the form, content and extent of audit documentation also apply to the documentation of the auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence. Paragraph A40 further explains that the documentation of audit procedures performed in accordance with other ISAs may include documentation about the auditor's consideration of attributes of relevance and reliability that are applicable in the circumstances. However, ED-500 does not require the auditor to document the consideration of every attribute of relevance and reliability of information.

¹¹ ISA 230, *Audit Documentation*

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

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

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

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

54. Paragraph 11 of ED-500 also:

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

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

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

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

Section 2-H – Evaluating the Audit Evidence Obtained

57. Paragraph 13 of ED-500 introduces a new “stand back” requirement for the auditor to evaluate audit evidence obtained from the audit procedures performed as a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with ISA 330.¹² This stand back also helps to “close the loop” on the requirement in paragraph 8(b) of ED-500 for the auditor to design and perform audit procedures that are appropriate in the circumstances to provide audit evidence to meet the intended purpose of those procedures. This applies to audit evidence obtained from all audit

¹² ISA 330, paragraph 26

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

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

Section 2-I – Conforming and Consequential Amendments

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

ISA 200

63. ISA 200¹³ and extant ISA 500 both have a definition of audit evidence. The extant ISA 500 definition is included in the IAASB's Glossary of Terms.¹⁴ These definitions have different constructs, which has led to questions about why they are different, whether both are needed, and whether or how they should be aligned.
64. The IAASB discussed whether the definition in ISA 200 should be updated to align with the proposed revised definition of audit evidence in paragraph 7(b) of ED-500, or whether the definition in ISA 200 should be deleted (i.e., have only a single definition of audit evidence in ED-500).
65. Given that ISA 200 is a foundational standard, the IAASB recognized that there may be merit in keeping the definition of audit evidence in both standards. However, on balance, the IAASB supported deleting the definition in ISA 200 and therefore is proposing a consequential amendment to ISA 200 to do so.

ISA 315 (Revised 2019)

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

ISA 330

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

¹³ ISA 200, paragraph 13(b)

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

Section 3 Request for Comments

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

Overall Questions

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

Specific Questions

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

Request for General Comments

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

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

PROPOSED INTERNATIONAL STANDARD ON AUDITING 500 (REVISED)

AUDIT EVIDENCE

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

CONTENTS

	Paragraph
Introduction	
Scope of this ISA	1-4
Effective Date	5
Objectives	6
Definitions	7
Requirements	
Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence	8
Information Intended to Be Used as Audit Evidence	9-12
Evaluating the Audit Evidence Obtained	13-14
Application and Other Explanatory Material	
Audit Evidence and Audit Procedures	A1-A4
Sufficient Appropriate Audit Evidence	A5-A12
Appropriateness of Audit Evidence	A13
Sufficiency of Audit Evidence	A14
Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence	A15-A33
Information Intended to Be Used as Audit Evidence	A34-A83
Evaluating the Audit Evidence Obtained	A84-A93
Appendix: The Relationship of Proposed ISA 500 (Revised) to the Other ISAs and Examples of Types of Audit Procedures	

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to audit evidence when designing and performing audit procedures. Such responsibilities include evaluating the relevance and reliability of information intended to be used as audit evidence and evaluating the audit evidence obtained. (Ref: Para. A1-A4)
2. ISA 200¹ deals with the overall responsibilities of the auditor in conducting an audit of the financial statements. ISA 200 requires the auditor to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.² (Ref: Para. A5-A12)
3. This ISA is applicable to all audit evidence obtained during the audit. Other ISAs may address the audit evidence to be obtained for specific matters (e.g., audit evidence related to risk assessment procedures performed in accordance with ISA 315 (Revised 2019)).³ In addition, ISA 330⁴ deals with, among other matters, the auditor's overall responsibility to obtain sufficient appropriate audit evidence and to conclude whether sufficient appropriate audit evidence has been obtained.

Professional Judgment and Professional Skepticism

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

Effective Date

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

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

² ISA 200, paragraph 17

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

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

⁵ ISA 200, paragraph 7

Objectives

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

Definitions

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

Requirements

Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence

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

Information Intended to Be Used as Audit Evidence

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

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

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

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

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

Evaluating the Audit Evidence Obtained

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

* * *

⁶ ISA 330, paragraph 26

Application and Other Explanatory Material

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

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

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

Automated Tools and Techniques

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

⁷ ISA 200, paragraph A30

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

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

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

Sufficient Appropriate Audit Evidence (Ref: Para. 2)

A5. The auditor considers all audit evidence obtained during the audit to provide a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with ISA 330.¹² As explained in ISA 330, the auditor's judgment as to what constitutes sufficient appropriate audit evidence is influenced by a number of factors, including the persuasiveness of the audit evidence.¹³

Interrelationship of the Sufficiency, Appropriateness and Persuasiveness of Audit Evidence

- A6. The sufficiency and appropriateness of audit evidence are interrelated.¹⁴ Sufficiency and appropriateness together affect the persuasiveness of audit evidence, taking into account the assessed risks of material misstatement and relevant assertions.
- A7. Certain ISAs provide requirements, or guidance, about circumstances when more persuasive audit evidence is, or may be, required. For example, in designing further audit procedures, ISA 330 requires the auditor to obtain more persuasive audit evidence the higher the auditor's assessment of risk, and also requires the auditor to obtain more persuasive audit evidence the greater the reliance the auditor places on the operating effectiveness of a control.¹⁵
- A8. The results of audit procedures performed, including whether any instances of fraud or error were identified, may cause the auditor to determine that it is appropriate to revise the risk assessment in accordance with ISA 315 (Revised 2019).¹⁶ A revision to the risk assessment may indicate that more persuasive audit evidence is needed to conclude whether sufficient appropriate audit evidence has been obtained.
- A9. Other factors that affect the sufficiency and appropriateness of audit evidence, and therefore its persuasiveness, include the following:
- The information intended to be used as audit evidence, including the auditor's consideration of the attributes of relevance and reliability of the information as explained in paragraphs A48–A49.
 - Whether the information is from a single source or may be needed from multiple sources.

¹⁰ ISA 315 (Revised 2019), paragraph A21

¹¹ ISA 315 (Revised 2019), paragraph A35

¹² ISA 330, paragraph 26

¹³ ISA 330, paragraph A62

¹⁴ ISA 200, paragraph A31

¹⁵ ISA 330, paragraphs 7(b) and 9

¹⁶ ISA 315 (Revised 2019), paragraph 37

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

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

- A10. In explaining the inherent limitations of an audit, ISA 200¹⁷ notes that the matter of difficulty, time or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive.
- A11. In some circumstances, there may be a high degree of difficulty, time or cost involved in accessing or understanding information intended to be used as audit evidence. However, the auditor may determine that there is no alternative information that would provide sufficient appropriate audit evidence and that it is therefore necessary to obtain such information despite the difficulty, time or cost involved.
- A12. In circumstances when the auditor determines that it is not practicable to obtain or understand the information intended to be used as audit evidence, the auditor may be unable to obtain sufficient appropriate audit evidence. In addition, management's unwillingness to respond to an inquiry or a request from the auditor (e.g., management's refusal to provide a requested representation) may be a limitation on the scope of the audit. ISA 705 (Revised)¹⁸ explains other circumstances when the auditor's inability to obtain sufficient appropriate audit evidence may be a scope limitation. Under these circumstances, the auditor is required to express a qualified opinion or disclaim the opinion on the financial statements in accordance with ISA 705 (Revised).

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

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

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

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

¹⁷ ISA 200, paragraph A50

¹⁸ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, paragraphs A8 and A9

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

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

The Nature of Audit Procedures

A15. As explained in paragraph A2, the auditor obtains audit evidence by designing and performing audit procedures, including risk assessment procedures, further audit procedures, and other audit procedures to comply with the ISAs. The nature of an audit procedure refers to its purpose and its type. For example, ISA 330 explains that the purpose of further audit procedures may be a test of controls or a substantive procedure.¹⁹ As also explained in ISA 330, the nature of the audit procedures is of most importance in responding to the assessed risks.

A16. The auditor may design and perform one type of audit procedure, or a combination of different types of audit procedures when obtaining audit evidence about, for example, a class of transactions, account balance or disclosure. The Appendix describes some of the types of audit procedures and includes illustrative examples.

A17. The type of audit procedure may affect the audit evidence obtained for the auditor's purposes.

Examples:

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

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

¹⁹ ISA 330, paragraph A5

²⁰ ISA 315 (Revised 2019), paragraph A19

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

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

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

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

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

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

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

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

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

Automation Bias

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

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

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

Examples:

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

- A25. ISA 200²⁴ explains that detection risk is a function of:

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

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

²⁴ ISA 200, paragraphs A44-A45

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

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

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

Selecting Items for Testing in Designing and Performing an Audit Procedure

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

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

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

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

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

Selecting all items

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

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

Selecting specific items

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

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

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

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

Audit sampling

A33. Audit sampling involves the application of audit procedures to less than 100% of items within a population and is designed to enable reasonable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it. As explained in paragraph A31, selecting specific items from a population does not constitute audit sampling. Audit sampling is addressed in ISA 530.²⁶

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

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

²⁵ ISA 315 (Revised 2019), paragraph A161

²⁶ ISA 530, *Audit Sampling*

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

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

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

Examples:

Audit evidence obtained from:

- The auditor’s understanding of the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control obtained in accordance with ISA 315 (Revised 2019).
- Tests of controls over the preparation and maintenance of the information performed in accordance with ISA 330.
- Audit procedures performed when using of the work of an auditor’s expert in accordance with ISA 620.²⁷

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

- Audit procedures performed in accordance with ISA 402²⁸ when a user entity uses the services of one or more service organizations.

- A39. In evaluating the relevance and reliability of information intended to be used as audit evidence, the auditor may identify information that is inconsistent with the audit evidence on which the auditor originally based the identification or assessment of the risks of material misstatement. In these circumstances, ISA 315 (Revised 2019) requires the auditor to revise the identification or assessment of the risks of material misstatement.²⁹
- A40. ISA 230³⁰ provides requirements and guidance about the form, content and extent of audit documentation that also apply to the documentation of the auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence. The documentation of audit procedures performed in accordance with other ISAs may include documentation about the auditor's consideration of attributes of relevance and reliability that are applicable in the circumstances (e.g., the credibility of a particular external information source used in auditing an accounting estimate in accordance with ISA 540 (Revised)). However, this ISA does not require the auditor to document the consideration of every attribute of relevance and reliability of information.

Form, Availability, Accessibility and Understandability of Information

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

Examples:

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

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

²⁹ ISA 315 (Revised 2019), paragraph 37

³⁰ ISA 230, *Audit Documentation*

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

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

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

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

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

Examples:

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

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

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

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

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

Example:

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

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

³² ISA 220 (Revised), paragraphs A59–A69.

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

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

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

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

Examples:

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

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

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

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

Example:

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

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

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

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

Relevance

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

³³ ISA 315 (Revised 2019), paragraphs 19–26

Examples:

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

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

Example:

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

Reliability

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

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

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

Example:

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

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

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

Examples:

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

³⁴ ISA 200, paragraph A23

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

³⁶ ISA 315 (Revised 2019), paragraphs 25-26

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

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

Example:

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

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

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

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

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

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

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

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

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

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

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

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

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

- A66. Management may employ or engage experts in fields other than accounting (e.g., actuarial, valuation, engineering, or climate change and sustainability) to obtain information necessary to prepare the financial statements.
- A67. As explained in paragraph A48, in some cases information prepared by an external individual or organization that is used by management in preparing the financial statements is an external information source, and in other cases it is information prepared by a management's expert. Professional judgment may be needed in determining whether information intended to be used as audit evidence has been prepared by a management's expert, and therefore whether the requirement in paragraph 11 of this ISA applies.

Examples:

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

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

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

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

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

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

Competence and capabilities

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

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

Examples:

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

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

Objectivity

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

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

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

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

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

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

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

A75. The auditor may decide to involve an auditor's expert³⁷ to assist in understanding the work performed, including the information prepared, by, the management's expert. For example, the auditor may not have sufficient knowledge or expertise in the management expert's field.

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

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

Examples:

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

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

A78. Based on the auditor's understanding of how information prepared by the management's expert has been used by management in the preparation of the financial statements, the auditor may identify a deficiency in internal control. ISA 265³⁸ deals with the auditor's responsibility to communicate deficiencies in internal control to those charged with governance and management.

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

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

³⁷ ISA 620, paragraph 7

³⁸ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged With Governance*

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

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

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

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

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

A83. ISA 580⁴¹ provides requirements and guidance for circumstances when the auditor has doubt as to the reliability of written representations. Doubts about the reliability of information from management may indicate a risk of fraud. ISA 240 deals with the auditor's responsibilities relating to fraud in an audit of financial statements.

Evaluating the Audit Evidence Obtained (Ref: Para 13)

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

³⁹ ISA 505, *External Confirmations*, paragraph A14

⁴⁰ ISA 200, paragraph A23

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

⁴² ISA 315 (Revised 2019), paragraph 35

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

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

⁴³ ISA 330, paragraphs 5-6

⁴⁴ ISA 315 (Revised 2019), paragraph A194

⁴⁵ ISA 330, paragraph 26

⁴⁶ ISA 330, paragraph A62

⁴⁷ ISA 330, paragraph 27

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

⁴⁹ ISA 220 (Revised), paragraph A89

Inconsistencies in Audit Evidence (Ref: Para. 14)

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

Example:

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

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

⁵⁰ ISA 315 (Revised 2019), paragraph 37

⁵¹ ISA 230, paragraph 11

Appendix

(Ref: Para. A2, A16–A17)

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

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

Responsibility to Design and Perform Audit Procedures

1. As explained in paragraph 3, this ISA is applicable to all audit evidence obtained during the audit. Other ISAs may address the audit evidence to be obtained for specific matters, for example:
 - ISA 315 (Revised 2019) deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements.
 - ISA 505⁵² deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with ISA 330 and ISA 500.
 - ISA 520⁵³ deals with the auditor's use of analytical procedures as substantive procedures, and the auditor's responsibility to perform analytical procedures near the end of the audit;
 - ISA 570 (Revised) deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.

Types of Audit Procedures

Inspection

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

Examples:

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

⁵² ISA 505, *External Confirmations*

⁵³ ISA 520, *Analytical Procedures*

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

Observation

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

Examples:

- In understanding the entity's system of internal control as part of risk assessment procedures, the auditor may observe control activities of the entity, for example:
 - Physical controls, such as the safeguarding of assets;
 - Management's procedures to monitor or capture the actual time worked of wage employees; or
 - Management may use automated controls to monitor or observe inventory movements, for example, by assigning a unique bar code or quick response code to all inventory items.
- Subject to certain exceptions, ISA 501⁵⁵ requires the auditor to attend the physical inventory counting of the client to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. The auditor may perform the required audit procedures by using manual or automated techniques, individually or in combination with each other. Automated techniques may include live video, screensharing or video footage from a drone.
 - As a test of control, the auditor may observe entity personnel performing the controls.
 - As a further substantive procedure, the auditor may observe inventory counting by the entity's personnel through the use of satellite tracking devices.

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

⁵⁵ ISA 501, paragraph 4

Confirmation

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

Examples:

The auditor may request an external confirmation of:

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

Recalculation

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

Reperformance

8. Repperformance involves the independent execution of procedures or controls that were originally performed as part of the entity's internal control.

Examples:

The auditor may:

- Develop an auditor's point estimate or range to evaluate management's point estimate and related disclosures about estimation uncertainty, in accordance with ISA 540 (Revised).
- Repperform the reconciliation of accounts payable balances at year end, through matching creditor's statements to the transactions in the underlying accounting records.

Analytical Procedures

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

⁵⁶ ISA 315 (Revised 2019), paragraph 14(b)

Example:

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

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

Inquiry

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

Examples:

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

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

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

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

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

Definitions

...

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

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

...

Application and Other Explanatory Material

...

Professional Skepticism (Ref: Para. 15)

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

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

...

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

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

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

...

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

Sufficiency and Appropriateness of Audit Evidence

- A30. Audit evidence is necessary to support the conclusions drawn that form the basis for the auditor's opinion and report. Audit evidence ~~It~~ is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits audit evidence (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit³) or through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information intended to ~~that may~~ be used as audit evidence may have been prepared by an expert employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. ~~In addition, in some cases, the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.~~ Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.

...

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

...

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

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

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

⁴ ISA 500 (Revised), paragraph A13

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

Application and Other Explanatory Material

...

Definitions

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

A15. The engagement team may be organized in a variety of ways. For example, engagement team members may be located together or across different geographic locations and may be organized in groups by the activity they are performing. Regardless of how the engagement team is organized, any individual who performs audit procedures⁵ on the audit engagement is a member of the engagement team.

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

...

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

...

Professional Skepticism (Ref: Para. 7)

...

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

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

⁵ ISA 500 (Revised), *Audit Evidence*, paragraph A240

⁶ ISA 200, paragraph A30

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

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

⁹ ISA 500 (Revised), paragraphs A1614–A25, Appendix

¹⁰ ISA 520, *Analytical Procedures*

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

...

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

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

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

Requirements

...

Risk Assessment Procedures and Related Activities

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

...

Evaluation of Fraud Risk Factors

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

Evaluation of Audit Evidence (Ref: Para. A50)

...

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

...

Communication to Management and with Those Charged with Governance

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

...

Application and Other Explanatory Material

...

Risk Assessment Procedures and Related Activities

...

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

...

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

...

Responses to the Assessed Risks of Material Misstatement Due to Fraud

...

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

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

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

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

...

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

...

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

...

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

...

Appendix 2

(Ref: Para. A41)

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

...

Consideration at the Assertion Level

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

The following are specific examples of responses:

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

Specific Responses—Misstatement Resulting from Fraudulent Financial Reporting

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

Revenue Recognition

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

Inventory Quantities

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

Management Estimates

- ...

Specific Responses—Misstatements Due to Misappropriation of Assets

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

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

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

Appendix 3

(Ref: Para. A50)

Examples of Circumstances that Indicate the Possibility of Fraud

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

...

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

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

ISA 300 – PLANNING AN AUDIT OF FINANCIAL STATEMENTS

Application and Other Explanatory Material

...

Appendix

(Ref: Para. 7–8, A8–A11)

Considerations in Establishing the Overall Audit Strategy

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

Characteristics of the Engagement

...

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

...

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

Definitions

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

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

...

Requirements

Risk Assessment Procedures and Related Activities

...

Evaluating the Audit Evidence Obtained from the Risk Assessment Procedures

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

Application and Other Explanatory Material

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

...

Sources of Audit Evidence (Ref: Para. 13)

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

¹¹ See paragraphs A37 and A38

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

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

...

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

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

...

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

...

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

...

The Evaluation of the Audit evidence

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

...

Documentation (Ref: Para. 38)

...

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

¹² ISA 500 (Revised), paragraph 97

¹³ ISA 500 (Revised), paragraph A1614-A17 and Appendix A21–A25

¹⁴ ISA 500 (Revised), paragraph A4212

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

¹⁶ ISA 230, paragraph A7

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

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

ISA 330 – THE AUDITOR'S RESPONSES TO ASSESSED RISKS

Requirements

...

Evaluating the Sufficiency and Appropriateness of Audit Evidence

...

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

...

Application and Other Explanatory Material

Overall Responses (Ref: Para. 5)

...

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

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

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

...

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

...

Extent

...

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

...

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

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

Tests of Controls

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

...

Timing of Tests of Controls

...

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

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

...

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

...

Nature and Extent of Substantive Procedures

...

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

...

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

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

...

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

Application and Other Explanatory Material

...

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

...

Tests of Controls (Ref: Para. 16)

...

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

...

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

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

...

ISA 501 – AUDIT EVIDENCE—SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS

Application and Other Explanatory Material

...

Litigation and Claims

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

...

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

ISA 505 – EXTERNAL CONFIRMATIONS

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with the requirements of ISA 330¹⁷ and ISA 500 (Revised).¹⁸ It does not address inquiries regarding litigation and claims, which are dealt with in ISA 501.¹⁹

External Confirmation Procedures to Obtain Audit Evidence

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

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

¹⁸ ISA 500 (Revised), *Audit Evidence*

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

²⁰ ISA 500, paragraph A9

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

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

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

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

...

Requirements

...

Evaluating the Results of the External Confirmation Procedures ~~Evidence Obtained~~

16. The auditor shall evaluate ~~whether~~ the results of the external confirmation procedures ~~provide relevant and reliable audit evidence, or~~ and determine whether further audit evidence is necessary. (Ref: Para A24–A25)

Application and Other Explanatory Material

...

²¹ ISA 500 (Revised), paragraph A13

²² ISA 500, paragraph A5

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

²⁴ ISA 500 (Revised), paragraphs A24A12–A13

Results of the External Confirmation Procedures

Reliability of Responses to Confirmation Requests (Ref: Para. 10)

A11. ISA 500 (Revised) indicates that the source of information may affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances, and the nature and extent of the auditor's evaluation of the relevance and reliability of the information even when audit evidence is obtained from sources external to the entity, circumstances may exist that affect its reliability.²⁵ All responses carry some risk of interception, alteration or fraud. Such risk exists regardless of whether a response is obtained in paper form, or by electronic or other medium. Factors that may indicate doubts about the reliability of a response include that it:

- Was received by the auditor indirectly; or
- Appeared not to come from the originally intended confirming party.

...

A14. The auditor is required by ISA 500 (Revised) to determine whether to modify modifications or additions to audit procedures are necessary to resolve doubts over about the relevance or reliability of information intended to be used as audit evidence.²⁶ The auditor may choose to verify the source and contents of a response to a confirmation request by contacting the confirming party. For example, when a confirming party responds by electronic mail, the auditor may telephone the confirming party to determine whether the confirming party did, in fact, send the response. When a response has been returned to the auditor indirectly (for example, because the confirming party incorrectly addressed it to the entity rather than to the auditor), the auditor may request the confirming party to respond in writing directly to the auditor.

...

Evaluating the Results of Individual External Confirmation Procedures ~~Evidence Obtained~~ (Ref: Para. 16)

A24. When evaluating the results of individual external confirmation requests, the auditor may categorize such results as follows:

- (a) A response by the appropriate confirming party indicating agreement with the information provided in the confirmation request, or providing requested information without exception;
- (b) A response deemed unreliable;
- (c) A non-response; or
- (d) A response indicating an exception.

...

.....

²⁵ ISA 500 (Revised), paragraph A5035

²⁶ ISA 500 (Revised), paragraph 1244

ISA 520 – ANALYTICAL PROCEDURES

Application and Other Explanatory Material

...

Substantive Analytical Procedures

...

The Reliability of the Data (Ref: Para. 5(b))

A12. The reliability of data is influenced by the auditor's consideration of its source and the attributes of reliability that are applicable in nature and is dependent on the circumstances under which it is obtained.²⁷ Accordingly, the following are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures:

- (a) Source of the information ~~available~~. For example, information may be less susceptible to management bias and more reliable when it is obtained from independent sources outside the entity;²⁸
- (b) Comparability of the information ~~available~~. For example, broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialized products;
- (c) Nature and relevance of the information ~~available~~. For example, whether budgets have been established as results to be expected rather than as goals to be achieved; and
- (d) Controls over the preparation of the information that are designed to ensure its completeness, accuracy and validity. For example, controls over the preparation, review and maintenance of budgets.

A13. ISA 500 (Revised) establishes requirements and provides guidance for evaluating whether the information intended to be used as audit evidence is relevant and reliable.²⁹ The auditor may consider testing the operating effectiveness of controls, if any, over the entity's preparation of information used by the auditor in performing substantive analytical procedures in response to assessed risks. When such controls are effective, the auditor generally has greater confidence in the reliability of the information and, therefore, in the results of analytical procedures. The operating effectiveness of controls over non-financial information may often be tested in conjunction with other tests of controls. For example, in establishing controls over the processing of sales invoices, an entity may include controls over the recording of unit sales. In these circumstances, the auditor may test the operating effectiveness of controls over the recording of unit sales in conjunction with tests of the operating effectiveness of controls over the processing of sales invoices. Alternatively, the auditor may consider whether the information was subjected to audit procedures testing. ~~ISA 500 establishes requirements~~

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

²⁸ ISA 500, *Audit Evidence*, paragraph A35

²⁹ ISA 500 (Revised), paragraph 9

~~and provides guidance in determining the audit procedures to be performed on the information to be used as audit evidence to be used for substantive analytical procedures.~~³⁰

...

Evaluation Whether the Expectation Is Sufficiently Precise (Ref: Para. 5(c))

A15. Matters relevant to the auditor's evaluation of whether the expectation can be developed sufficiently precisely to identify a misstatement that, when aggregated with other misstatements, may cause the financial statements to be materially misstated, include:

...

- The availability of ~~the~~ information, both financial and non-financial. For example, the auditor may consider whether financial information, such as budgets or forecasts, and non-financial information, such as the number of units produced or sold, is available to design substantive analytical procedures. If the information is available, the auditor is required to evaluate ~~may also consider~~ the reliability of the information as discussed in paragraphs A12–A13 above.

ISA 530 – AUDIT SAMPLING

Introduction

Scope of this ISA

...

2. This ISA complements ISA 500 (Revised),³¹ which deals with the auditor's responsibility to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. ISA 500 (Revised) provides guidance on the means available to the auditor for selecting items for testing, of which audit sampling is one means.

Application and Other Explanatory Material

...

Sample Design, Size, and Selection of Items for Testing

Sample Design (Ref: Para. 6)

...

- A5. When designing an audit sample, the auditor's consideration includes the specific purpose to be achieved and the combination of audit procedures that is likely to best achieve that purpose. Consideration of the nature of the audit evidence sought and possible deviation or misstatement conditions or other characteristics relating to that audit evidence will assist the auditor in defining what constitutes a deviation or misstatement and what population to use for sampling. In fulfilling the

³⁰ ISA 500, paragraph 10

³¹ ISA 500 (Revised), *Audit Evidence*

requirements of paragraphs 9 and 10 of ISA 500 (Revised), when performing audit sampling, the auditor performs audit procedures to obtain evidence that the population from which the audit sample is drawn is complete.

...

Appendix 4

(Ref: Para. A13)

Sample Selection Methods

There are many methods of selecting samples. The principal methods are as follows:

...

(e) Block selection ...

The application of any one or a combination of the methods in paragraphs (a) to (e) may be appropriate depending on the circumstances. The auditor may also use automated tools and techniques to identify and select items for testing.

ISA 540 (REVISED) – AUDITING ACCOUNTING ESTIMATES AND RELATED DISCLOSURES

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to accounting estimates and related disclosures in an audit of financial *statements*. Specifically, it includes requirements and guidance that refer to, or expand on, how ISA 315 (Revised 2019),³² ISA 330,³³ ISA 450,³⁴ ISA 500 (Revised)³⁵ and other relevant ISAs are to be applied in relation to accounting estimates and related disclosures. It also includes requirements and guidance on the evaluation of misstatements of accounting estimates and related disclosures, and indicators of possible management bias.

...

Requirements

...

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

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

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

³⁵ ISA 500 (Revised), *Audit Evidence*

Responses to the Assessed Risks of Material Misstatement

...

Other Considerations Relating to Audit Evidence

30. In obtaining audit evidence regarding the risks of material misstatement relating to accounting estimates, irrespective of the sources of information to be used as audit evidence, the auditor shall comply with the relevant requirements in ISA 500 (Revised).

When using the work of a management's expert, the requirements in paragraphs 21–29 of this ISA may assist the auditor in evaluating ~~the appropriateness of the expert's work as audit evidence for a relevant assertion~~ in accordance with paragraph 8(c) 11 of ISA 500 (Revised). ~~In evaluating the work of the management's expert, the nature, timing and extent of the further audit procedures are affected by the auditor's evaluation of the expert's competence, capabilities and objectivity, the auditor's understanding of the nature of the work performed by the expert, and the auditor's familiarity with the expert's field of expertise.~~ (Ref: Para. A126–A132)

...

Overall Evaluation Based on Audit Procedures Performed

33. In applying ISA 330 to accounting estimates,³⁶ the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether: (Ref: Para A137–A138)
- (a) The assessments of the risks of material misstatement at the assertion level remain appropriate, including when indicators of possible management bias have been identified;
 - (b) Management's decisions relating to the recognition, measurement, presentation and disclosure of these accounting estimates in the financial statements are in accordance with the applicable financial reporting framework; and
 - (c) Sufficient appropriate audit evidence has been obtained.
34. In making the evaluation required by paragraph 33(c), the auditor shall take into account all ~~relevant~~ audit evidence obtained, ~~whether including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions in the financial statements.~~³⁷ If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall evaluate the implications for the audit or the auditor's opinion on the financial statements in accordance with ISA 705 (Revised).³⁸

...

³⁶ ISA 330, paragraphs 25–26

³⁷ ISA 500 (Revised), paragraph 13~~44~~

³⁸ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

Application and Other Explanatory Material

...

Responses to the Assessed Risks of Material Misstatement

The Auditor's Further Audit Procedures (Ref: Para. 18)

...

Obtaining Relevant Audit Evidence Whether Corroborative or Contradictory

A82. Audit evidence comprises evidence ~~both information~~ that supports and corroborates management's assertions, and evidence ~~any information~~ that contradicts such assertions.³⁹ Obtaining audit evidence in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of audit evidence.

...

Testing How Management Made the Accounting Estimate (Ref. Para. 22)

...

Significant Assumptions (Ref: Para. 24)

...

Relevance and reliability of the data (Ref: Para. 25(c))

A107. ~~When using information produced by the entity, ISA 500 (Revised) requires the auditor to evaluate the relevance and reliability of whether the information intended to be used as audit evidence is sufficiently relevant and reliable for the auditor's purposes, taking into consideration the source of the information and the attributes of relevance and reliability that are applicable in the circumstances. If the auditor considers that including as necessary in the circumstances, to obtain audit evidence about the accuracy and completeness attributes are applicable in the circumstances, ISA 500 (Revised) also requires the auditor to obtain audit evidence about the accuracy and completeness of the information and evaluating whether the information is sufficiently precise and detailed for the auditor's purposes.~~⁴⁰

...

Other Considerations Relating to Audit Evidence (Ref: Para. 30)

A126. Information intended to be used as audit evidence, regarding risks of material misstatement relating to accounting estimates, may have been produced by the entity, prepared using the work of a management's expert, or provided by an external information source.

³⁹ ISA 500 (Revised), paragraph A15

⁴⁰ ISA 500 (Revised), paragraphs 9-10

External Information Sources

A127. As explained in ISA 500 (Revised),⁴¹ the source of the information intended to be used as audit evidence may affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances, and the nature and extent of the auditor's evaluation of the relevance and reliability of the information ~~the reliability of information from an external information source is influenced by its source, its nature, and the circumstances under which it is obtained. Consequently, the nature and extent of the auditor's further audit procedures to consider the reliability of the information used in making an accounting estimate may vary depending on the nature of these factors.~~ For example:

- ...
- When information obtained from an external information source has been developed by that source using its own model(s). ~~Paragraph A43 of ISA 500 provides relevant guidance.~~

...

A129. When information intended to be used as audit evidence is from an external information source ~~is used as audit evidence~~, a relevant consideration for the auditor may be whether information can be obtained, or whether the information is sufficiently detailed, to understand the methods, assumptions and other data used by the external information source. This may be limited in some respects and consequently influence the auditor's consideration of the nature, timing and extent of procedures to perform. For example, pricing services often provide information about their methods and assumptions by asset class rather than individual securities. Brokers often provide only limited information about their inputs and assumptions when providing broker indicative quotes for individual securities. Paragraph ~~A44~~A46 of ISA 500 (Revised) provides guidance ~~with respect to restrictions placed by the~~ for circumstances in which the auditor may not have a sufficient basis to evaluate the relevance and reliability of information from an external information source ~~on the provision of supporting information.~~

Management's Expert

...

A131. If the work of a management's expert involves the use of methods or sources of data relating to accounting estimates, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in the financial statements, the requirements in paragraphs 21–29 of this ISA may assist the auditor in applying paragraph ~~118(e)~~ of ISA 500 (Revised).

...

Documentation (Ref: Para. 39)

...

A152. Paragraph A7 of ISA 230 notes that, although there may be no single way in which the auditor's exercise of professional skepticism is documented, the audit documentation may nevertheless provide evidence of the auditor's exercise of professional skepticism. For example, in relation to

⁴¹ ISA 500 (Revised), Paragraph A5035

accounting estimates, when the audit evidence obtained includes evidence that both corroborates and contradicts management's assertions, the documentation may include how the auditor evaluated that evidence, including the professional judgments made in forming a conclusion as to whether sufficient the sufficiency and appropriateness of the audit evidence has been obtained. Examples of other requirements in this ISA for which documentation may provide evidence of the exercise of professional skepticism by the auditor include:

...

- Paragraph 18, which requires further audit procedures to be designed and performed to obtain sufficient appropriate evidence in a manner that is not biased toward obtaining audit evidence that may ~~be corroborative~~ corroborate, or towards excluding audit evidence that may ~~be contradictory~~, assertions made by management;

...

- Paragraph 34, which addresses the auditor's consideration of all ~~relevant~~ audit evidence obtained, whether including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborative or contradictory the assertions in the financial statements.

ISA 550 – RELATED PARTIES

Application and Other Explanatory Material

...

Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions (Ref: Para. 20)

...

Assertions That Related Party Transactions Were Conducted on Terms Equivalent to Those Prevailing in an Arm's Length Transaction (Ref: Para. 24)

...

A44. Evaluating management's support for this assertion may involve one or more of the following:

- Considering the appropriateness of management's process for supporting the assertion.
- Verifying the source of the internal or external data supporting the assertion, and evaluating the relevance and reliability of the data, including obtaining audit evidence about its testing the data to determine their accuracy, and completeness and relevance.
- Evaluating the reasonableness of any significant assumptions on which the assertion is based.

ISA 570 (REVISED) – GOING CONCERN

...

Requirements

...

Additional Audit Procedures When Events or Conditions Are Identified

16. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include: (Ref: Para. A16)

...

- (c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions: (Ref: Para. A18–A19)
- (i) Evaluating the relevance and reliability of the underlying data generated to prepare the forecast; and
 - (ii) Determining whether there is adequate support for the assumptions underlying the forecast.

ISA 580 – WRITTEN REPRESENTATIONS

Introduction

...

Written Representations as Audit Evidence

3. Audit evidence is ~~the information, to which audit procedures have been applied, that the auditor uses used by the auditor~~ in arriving at the conclusions that form the basis for on which the auditor's opinion and report is based.⁴² Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements. Accordingly, similar to responses to inquiries, written representations are audit evidence. (Ref: Para. A1)

...

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

ISA 610 (REVISED 2013) – USING THE WORK OF INTERNAL AUDITORS

Introduction

...

Relationship between ISA 315 (Revised 2019) and ISA 610 (Revised 2013)

...

10. There may be individuals in an entity that perform procedures similar to those performed by an internal audit function. However, unless performed by an objective and competent function that applies a systematic and disciplined approach, including quality control, such procedures would be considered internal controls and obtaining audit evidence regarding the effectiveness of such controls would be part of the auditor's responses to assessed risks in accordance with ISA 330.⁴³

...

Requirements

...

Using Internal Auditors to Provide Direct Assistance

33. ...
34. The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with ISA 220 (Revised).⁴⁴ In so doing:
- (a) The nature, timing and extent of direction, supervision, and review shall recognize that the internal auditors are not independent of the entity and be responsive to the outcome of the evaluation of the factors in paragraph 29 of this ISA; and
 - (b) The review procedures shall include the external auditor checking back to the underlying information ~~audit evidence~~ for some of the work performed by the internal auditors.

The direction, supervision and review by the external auditor of the work performed by the internal auditors shall be sufficient in order for the external auditor to determine that the internal auditors have obtained sufficient appropriate audit evidence to support the conclusions based on that work. (Ref: Para. A40–A41)

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

⁴⁴ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

ISA 620 – USING THE WORK OF AN AUDITOR’S EXPERT

Introduction

Scope of this ISA

...

2. This ISA does not deal with:

- (a) Situations where the engagement team includes a member, or consults an individual or organization, with expertise in a specialized area of accounting or auditing, which are dealt with in ISA 220 (Revised);⁴⁵ or
- (b) The auditor’s use of the work of an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements (a management’s expert), which is dealt with in ISA 500 (Revised).⁴⁶

...

Application and Other Explanatory Material

...

Determining the Need for an Auditor’s Expert (Ref: Para. 7)

...

- A8. In other cases, however, the auditor may determine that it is necessary, or may choose, to use an auditor’s expert to assist in obtaining sufficient appropriate audit evidence. Considerations when deciding whether to use an auditor’s expert may include:
- Whether management has used a management’s expert in preparing the financial statements (see paragraph A9).
 - The nature and significance of the matter, including its complexity.
 - The risks of material misstatement in the matter.
 - The expected nature of procedures to respond to identified risks, including: the auditor’s knowledge of and experience with the work of experts in relation to such matters; and the availability of alternative sources of information intended to be used as audit evidence.
- A9. When management has used a management’s expert in preparing the financial statements, the auditor’s decision on whether to use an auditor’s expert may also be influenced by such factors as:
- The nature, scope and objectives of the management’s expert’s work.
 - Whether the management’s expert is employed by the entity, or is a party engaged by it to provide relevant services.

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

⁴⁶ ISA 500 (Revised), *Audit Evidence*, paragraphs A66–A78A45–A59

- The extent to which management can exercise control or influence over the work of the management's expert.
- The management's expert's competence and capabilities.
- Whether the management's expert is subject to technical performance standards or other professional or industry requirements
- Any controls within the entity over the management's expert's work.

ISA 500 (Revised)⁴⁷ includes requirements and guidance regarding the evaluation ~~effect~~ of the competence, capabilities and objectivity of a management's experts ~~on~~ as part of the auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence.

...

ISA 701 – COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT

Application and Other Explanatory Material

...

Determining Key Audit Matters (Ref: Para. 9–10)

...

Considerations in Determining Those Matters that Required Significant Auditor Attention (Ref: Para. 9)

A16. The auditor may develop a preliminary view at the planning stage about matters that are likely to be areas of significant auditor attention in the audit and therefore may be key audit matters. The auditor may communicate this with those charged with governance when discussing the planned scope and timing of the audit in accordance with ISA 260 (Revised). However, the auditor's determination of key audit matters is based on the results of the audit procedures performed and ~~or~~ audit evidence obtained throughout the audit.

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

...

Application and Other Explanatory Material

...

Considerations When Accepting the Engagement

⁴⁷ ISA 500 (Revised), paragraph 118

Application of ISAs (Ref: Para. 7)

...

- A6. Compliance with the requirements of ISAs relevant to the audit of a single financial statement or of a specific element of a financial statement may not be practicable when the auditor is not also engaged to audit the entity's complete set of financial statements. In such cases, the auditor often does not have the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the entity's complete set of financial statements. The auditor also does not have the audit evidence about the general quality of the accounting records or other accounting information that would be obtained ~~acquired~~ in an audit of the entity's complete set of financial statements. Accordingly, the auditor may need ~~further to obtain audit evidence to supplement the information obtained to corroborate audit evidence acquired~~ from the accounting records. In the case of an audit of a specific element of a financial statement, certain ISAs require audit work that may be disproportionate to the element being audited. For example, although the requirements of ISA 570 (Revised) are likely to be relevant in the circumstances of an audit of a schedule of accounts receivable, complying with those requirements may not be practicable because of the audit effort required. If the auditor concludes that an audit of a single financial statement or of a specific element of a financial statement in accordance with ISAs may not be practicable, the auditor may discuss with management whether another type of engagement might be more practicable.

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AUASB Agenda Paper

Title	GS 019 Auditing Fundraising Revenue of Not-for-Profit Entities (GS 019)	Date:	28 November 2022
ATG Staff:	Marina Michaelides and See Wen Ewe	Agenda Item:	8.0

Recommendations and Questions for the Board

Question No.	Questions for the Board	ATG Recommendation and Overview
Question 1	Does the AUASB agree with the ATG recommendation to withdraw GS 019?	The ATG recommend the withdrawal of GS 019 and consider that appropriate consultation and due process have been undertaken to support the withdrawal.
Question 2	Does the AUASB have any comments on the draft AUASB Bulletin structure attached in Agenda Item 8.1 ?	The ATG propose to issue an AUASB Bulletin to address auditing fundraising revenue for not-for-profit entities in a Digital Age.

Background and Previous Discussions on Topic

- 1 At the September 2020 AUASB Meeting, the AUASB approved the AUASB Technical Group's (ATG) plan to update several Guidance Statements including [GS 019 Auditing Fundraising Revenue of Not-for-Profit Entities](#). The recommendation was based on feedback received from stakeholders in response to a discussion paper and survey issued to obtain broad feedback on the suite of guidance statements (see [Agenda Item 5 of the September 2020 AUASB Agenda Papers](#)).

Matters for Discussion and ATG Recommendations

Feedback received from recent stakeholder discussions

- 2 As part of the information gathering process for this project, the ATG have discussed the current fundraising revenue collection of not-for-profit entities (NFPs) and GS 019 with selected stakeholders including ACNC, professional bodies and auditors of NFPs from mid-tier to smaller firms.
- 3 Based on the feedback received from the regulator and practitioner stakeholders, there has been a significant decrease in cash revenue collections for NFPs/Charities up to and during the COVID-19 pandemic. Over the last three years in particular cash donations have become a significantly smaller proportion of total income for NFPs. NFPs are using more digital means to collect and process fundraising revenue with an increase in use of credit card, EFTPOS, Go Fund Me, PayPal and QR codes to provide technology platforms for collecting fundraising revenue.
- 4 GS 019 was issued in 2011, before the establishment of the ACNC and the significant changes observed in the method and processes of collection of fundraising revenue. This has seen a decline in the number of modifications to the audit report based on completeness of fundraising revenue. As such a full revision to GS 019 was not seen as required by stakeholders. However, noting that the appendices in GS 019 provide valuable guidance and resources to stakeholders, there was across the board support



for this information to be updated and retained in some accessible format (e.g., An AUASB Bulletin and/or AUASB Landing Page for NFPs).

Project Plan

- 5 Based on the information gathered, the ATG put together a project plan (see **Agenda Item 8.2**) detailing the issues that needed to be addressed and the scope of the project. In the process of updating the project plan, the ATG have found the content of GS 019 to be outdated (e.g., GS 019 was issued before ACNC was established) and no longer fit-for-purpose in the current environment.
- 6 The ATG considered the following options and analysed the cost and benefit of each option:
 - a) Rewrite GS 019 focusing on risks and audit procedures around digital fundraising revenue and include relevant references to ACNC Act and other state regulations and include references to the new ASA 315.
 - a. Benefit – retains the authority of a GS and provides guidance to auditors.
 - b. Cost – Considerable amount of time and resources will be required to rewrite a GS and a PAG may be required. As the GS is narrow scope that only addresses the auditing procedures around fundraising revenue collection, it is uncertain whether the GS will be widely used.
 - b) Withdraw GS 019 but carve out the useful information contained in the appendices (i.e. the risks and audit procedures table in Appendix 1 and example auditor reports), update and store them on a dedicated AUASB webpage; and issue a targeted AUASB Bulletin on areas for auditors to consider for NFP fundraising revenue. This targeted Bulletin will include relevant references to the ACNC Act and other state regulations and make references to other relevant Bulletins issued, e.g. [ASA 315 and the Auditor's Responsibilities for General IT Controls](#) and [ASA 315: Scalability Considerations for Audits of Less Complex Entities](#).
 - a. Benefit – Less time and resources required to develop an AUASB Bulletin. Auditors will be able to get timely updates from the dedicated AUASB webpage which will house other publications relevant to NFPs.
 - b. Cost – loses the authority of a GS.

Process to withdraw GS 019

- 7 Under the AUASB's [Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications](#) paragraph 265(b), a formal process to withdraw or repeal GSs is not required; however, before the withdrawal of a GS the AUASB will publicise the intention to withdraw the GS on the AUASB website and through standard AUASB communication channels, to elicit any objections from stakeholders.

ATG Recommendation

- 8 The ATG strongly recommend option b) to withdraw GS 019 and issue an AUASB Bulletin that retains useful information from GS 019 and provide guidance and draw references to other resources (AUASB NFP Landing page) that could assist auditors in auditing fundraising revenue of not-for-profit entities in the digital age. See project plan in **Agenda Item 8.2** for more details.



Draft Bulletin Structure

- 9 The ATG have drafted the Bulletin structure on areas for auditors to consider for NFP fundraising revenue in a Digital Age (see **Agenda Item 8.1**) and are seeking any early feedback from the AUASB.

Collaboration with NZAuASB and other standard setters

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

Next steps/Way Forward

- 12 Depending on the outcome at the November 2022 AUASB meeting, in accordance with the AUASB Due process the ATG will publicise the intention to withdraw GS 019 on the AUASB website and through standard AUASB communication channels.
- 13 The ATG will incorporate any feedback received from the AUASB on the draft Bulletin structure and will look to issue the Bulletin on the AUASB website and through the newsletter in February 2023. Refer to the project plan at **Agenda Item 8.2** for detailed timeline.

Materials Presented

Agenda Item	Description
8.1 (*SP)	Draft AUASB Bulletin Structure
8.2 (*SP)	GS 019 <i>Auditing Fundraising Revenue of Not-for-Profit Entities</i> Project Plan

*SP: AUASB Supplementary Papers Pack



AUASB Agenda Paper

Title:	IAS 1 Changes and impact on AUASB Standards	Date:	14 November 2022
ATG Staff:	James Wake	Agenda Item:	9

Questions for the Board

Question No.	Question for the Board
Question 1	The AUASB is asked to approve the Project Plan included at Agenda Item 9.1 .

Background and Previous Discussions on Topic

- 1 Amendments made by the IASB to IAS 1 require companies to disclose their *material accounting policy information* rather than their *significant accounting policies*. This change flows through to AASB 101 *Presentation of Financial Statements* that is issued by the AASB. While this change is only effective for annual periods beginning on or after 1 January 2023, it impacts the requirements, application material and example reports in ISA/ASA 700 *Forming an Opinion and Reporting on a Financial Report* and other auditing standards.
- 2 The IAASB will soon issue non-authoritative guidance on this matter that provides the wording changes required to example auditor's reports throughout all IAASB standards. The basis behind not changing the requirements in the auditing standards centres around the IAASB standards being framework neutral with generic references to accounting policies.
- 3 The AUASB Technical Group will need to update all example auditor's report throughout the suite of ASA's based on the non-authoritative guidance that will be issued by the IAASB to align to the new IAS 1 wording which has been adopted in Australia.

Matters for Discussion and ATG Recommendations / Collaboration with NZAuASB and other standard setters / Next steps

- 4 Refer to the detailed Project Plan as outlined at **Agenda Item 9.1**.

Materials Presented

Agenda Item	Description
9.1	Project Plan IAS 1 Changes and impact on AUASB Standards



AUASB Project Plan

Project Title:	IAS 1 Changes and impact on AUASB Standards
Date Prepared:	8 November 2022
Date Approved:	
ATG Member:	James Wake
AUASB Member:	Bill Edge
Version Number	1

Overview of Project

Background

1. In February 2021, the International Accounting Standards Board (IASB) issued *Disclosure of Accounting Policies*, which amended IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements* to require entities to disclose their *material accounting policy information* instead of their *significant accounting policies*. These amendments are effective for annual reporting periods beginning on or after 1 January 2023.
2. The AASB issued AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates* in March 2021, which made equivalent amendments to AASB 101 *Presentation of Financial Statements*¹.
3. At the IAASB's September 2022 meeting, the IAASB noted that the amendments to IAS 1 will impact the requirements, application material and example reports in ISA 700. Specifically, IAASB staff have noted the following as being impacted by the change to IAS 1:
 - (a) 3 requirements;
 - (b) 11 application material paragraphs; and
 - (c) 36 example auditor's reports.
4. The IAASB have decided to issue non-authoritative guidance on this matter which will provide the wording changes required to example auditor's reports throughout the suite of IAASB Standards. The IAASB indicated that it will not be changing the requirements in the standard on the basis that IAASB Standards are framework neutral with generic references to accounting policies. Additionally, the IAASB concluded that the changes to illustrative reports are editorial in nature and that the IAASB did not need to vote on changes or seek public consultation. The ATG expects this guidance to be released in late November 2022.
5. Considering the AASB's adoption of the IAS 1 amendments in Australia and the commencement of the IAASB project as outlined in Paragraph 4 above, the AUASB Technical Group (ATG) consider it

¹ See [AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates](#)

appropriate to commence a project to identify the impacts of the changes included in AASB 2021-2 on the suite of AUASB Standards and to update the Standards as necessary.

Information Gathering

6. The IAASB will issue a guidance paper in November 2022 that will outline the ISAs which will need to be updated to ensure consistency with the new IAS 1 wording. The ATG will soon after release Australian specific guidance to advise practitioners of the change in wording to the illustrative letters and reports in the ASA's using the IAASB publication as a reference point.
7. The ATG have undertaken an initial review of the full suite of AUASB Standards to determine the potential impacts of the amendments made to AASB 101.
8. Based on this review, 20 AUASB Standards were identified as including at least one reference to 'significant accounting policies'². The majority of these references were included in the illustrative auditor's reports, review reports and engagement letters while a number were also included in requirements and application material paragraphs. The below table provides a summary of the paragraphs and appendices across the AUASB Standards that reference 'significant accounting policies'³:

Location of reference to 'significant accounting policies'	Number of paragraphs/appendices which reference 'significant accounting policies'
Requirements paragraphs (same as ISA)	6
Requirements paragraphs (Aus paragraphs)	1
Application Material paragraphs (same as ISA)	11
Application Material paragraphs (Aus paragraphs)	0
Illustrative Auditor's Reports / Review Reports	14
Illustrative Engagement Letters	3
Other Appendices	1

Scope and objective

What is the problem we are trying to solve (project objective)?

9. The objective of this project is to determine the impacts of the amendments included in AASB 2021-1 on the suite of AUASB Standards and to update the AUASB Standards as necessary to ensure consistency with IAASB and AASB Standards.
10. The scope of this project is intended to be limited to the illustrative auditor's reports and engagement letters within the AUASB Standards. Therefore, changes to the requirements within the AUASB Standards are outside of the scope of the project. This is on the basis that the AUASB Standards are framework neutral with generic references to accounting policies and is consistent with the position of the IAASB.

² The AUASB Standards which reference 'significant accounting policies' at least once are ASA 200, ASA 210, ASA 260, ASA 265, ASA 315, ASA 510, ASA 540, ASA 570, ASA 600, ASA 700, ASA 701, ASA 705, ASA 706, ASA 710, ASA 720, ASA 800, ASA 805, ASRE 2400, ASRE 2410 and ASRE 2415.

³ The table does not specify the number of times that the 'significant accounting policies' wording is used across the AUASB Standards. Rather, it indicates the number of paragraphs and appendices where such references are included. For example, Appendix 1 of ASA 700 references 'significant accounting policies' four times but, for the purposes of the table, it only counts as one instance of an appendix where the wording is referenced.



What AUASB output will best respond to this?

11. To respond to this issue, the AUASB can issue an amending standard which updates the wording included in the AUASB Standards to reflect the changes to AASB 101. As per the *AUASB Due Process Framework*, the amendments to the standards would be sufficiently narrow in scope that they can be packaged together in one document. A draft of the proposed amendments may be considered and approved by the AUASB without formal public exposure⁴. As an immediate output, the AUASB will release the IAASB guidance when issued to alert Australian stakeholders to the wording changes.

Project Governance

Why is this in the public interest?

12. The AUASB as an independent standard-setter serves the public interest by developing, issuing and maintaining high-quality audit-related standards and guidance that enhance audit and assurance quality and consistency, thereby contributing to stakeholder confidence in the Australian economy, including its capital markets, and enhanced credibility in external reporting through independent auditing and assurance⁵.
13. One of the strategic objectives of the AUASB is to develop and issue Australian Auditing and Assurance Standards that are in the public interest and meet the needs of stakeholders based on IAASB equivalents in accordance with AUASB functions and our direction from the Financial Reporting Council (FRC).
14. The ATG notes that the illustrative auditor's reports and engagement letters included as appendices throughout the suite of AUASB Standards are critical reference points for stakeholders and assist auditors in applying the requirements within the standards. As such, it is in the public interest to ensure that the example auditor's reports and engagement letters are updated to reflect changes in wording.
15. Furthermore, the ATG considers that it is in the public interest to ensure consistency with amendments made by the IAASB to align with the new wording in IAS 1. This is consistent with the AUASB's objective to adopt international auditing and assurance standards in Australia unless modifications are considered to be in the public interest and these do not conflict with, or result in lesser requirements to, the international standards⁶.

Action Plan

Date	Description
November 2022	Issuance of IAASB guidance paper
November 2022	ATG to identify changes required for AUASB Standards
Nov-Dec 2022	Development of AUASB Amending Standard
March 2023	AUASB Amending Standard provided to Board for approval

⁴ See [AUASB Due Process Framework](#), Paragraph 209.

⁵ See [AUASB Corporate Plan](#).

⁶ See [AUASB Policy and Process for International Conformance and Harmonisation of Standards](#).



Harmonisation with New Zealand

16. NZAuASB Staff have identified 10 standards that will need to be amended as a result of the wording changes in IAS 1⁷. NZAuASB Staff have additionally indicated that they will wait for the IAASB discussion paper before progressing further with this project.
17. Whilst the necessary changes to each suite of auditing standards will be different, the AUASB and NZAuASB technical staff will collaborate on this project as required to ensure consistency across both jurisdictions.

Way forward

18. If the AUASB approves this project proposal, an Amending Standard will be prepared by the ATG for approval in March 2023, the amendments will be compiled into the affected standards. In the interim and before year end, the AUASB will issue the IAASB guidance (once released) so that Australian stakeholders are alerted to the wording changes before the effective date commences.

⁷ The standards identified by NZAuASB Staff as requiring editing are ISA (NZ) 210, ISA (NZ) 510, ISA (NZ) 570, ISA (NZ) 600, ISA (NZ) 700, ISA (NZ) 705, ISA (NZ) 706, ISA (NZ) 710, ISA (NZ) 720 and ISRE (NZ) 2400.



AUASB Agenda Paper

Title:	Auditor Reporting: Key Audit Matters	Date:	28 November 2022
ATG Staff:	Anne Waters	Agenda Item:	10.0

Recommendations and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	Does the AUASB have any feedback or amendments to the draft AUASB Discussion Paper – Expanding Key Audit Matters beyond listed entities?	Provide feedback on the discussion paper.
Question 2	Subject to question 1, does the AUASB approve the discussion paper for issue?	Subject to question 1, approve the discussion paper.

Background and Previous Discussions on Topic

1. At its meeting on 6 September 2022 the AUASB approved the Auditor Reporting: Key Audit Matters Project Plan which included an action to issue a Consultation Paper requesting feedback from Australian stakeholders on whether the reporting of Key Audit Matters should be expanded beyond listed entities.

Matters for Discussion and ATG Recommendations

2. The AUASB Technical group (ATG) have drafted the Consultation Paper for the AUASB to consider for approval at **Agenda Item 10.1**.

Next steps/Way Forward

3. Subject to approval by the AUASB at the November 2022 AUASB Meeting the ATG will issue this Consultation Paper in early December, requesting feedback by March 2023 to enable the AUASB to consider at its May or June 2023 meeting.

Materials Presented

Agenda Item	Description
10.1	Consultation Paper: Expanding Key Audit Matters beyond Listed Entities

December 2022

Consultation Paper – Expanding Key Audit Matters beyond listed entities

Feedback requested by 31 March 2023

ISSUED BY
AUDITING AND ASSURANCE STANDARDS BOARD



Australian Government
Auditing and Assurance Standards Board

About the AUASB

The Auditing and Assurance Standards Board (AUASB) is an independent, Non-corporate Commonwealth entity of the Australian Government, responsible for developing, issuing and maintaining auditing and assurance standards.

Sound public interest-oriented auditing and assurance standards are necessary to reinforce the credibility of the auditing and assurance processes for those who use financial and other information. The AUASB standards are legally enforceable for audits or reviews of financial reports required under the *Corporations Act 2001*. For more information about the AUASB see the AUASB Website.

Disclaimer

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

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

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Table of contents

1.	Introduction and invitation to comment	4
2.	Feedback received to date on KAMs	5
	IAASB's PIR	5
	AUASB's PIR.....	5
3.	Should ASA 701 be expanded to include other entities?	6
	Overarching principle.....	6
	Options for the communication of KAMs	7
4.	Comment Closing Date and Next steps.....	9

1.Introduction and invitation to comment

The enhanced auditor's report became effective in December 2016. One of the significant enhancements was the introduction of the communication of Key Audit Matters (KAMs) in the auditor's report of listed entities as required by ISA / ASA 701¹.

KAMs were introduced to:

- Enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed.
- Provide additional information to intended users to assist them in understanding those matters, that in the auditor's professional judgement, were of most significance in the audit.
- Assist intended users in understanding the entity and areas of significant management judgement in the financial report².

In addition, it was anticipated there would be other benefits such as:

- Enhanced communication between auditors and investors, and those charge with corporate governance.
- Increased user confidence in audit reports and financial statements.
- Increased transparency, audit quality, and enhanced information value.
- Increased attention by management and financial statement preparers to disclosures referencing the auditor's report.
- Renewed auditor focus on matters to be reported that could result in an increase in professional scepticism.
- Enhanced financial reporting in the public interest³.

The IAASB determined that ISA 701 should be applicable for listed entities only as there are many users who do not have ready access to management and those charged with management, and who may benefit from this communication. As detailed in the [ISA 701 Basis for Conclusions](#) the IAASB decided that extending the mandatory application to other entities would be considered once the post-implementation review (PIR) was completed.

As detailed in the [ASA 701 Basis for Conclusions](#) the AUASB discussed the types of entities that might be considered "public interest" and agreed the concept of KAM disclosures in the auditor's report about the matters of most significance to the audit was useful to all users of audited financial reports. However, the AUASB agreed to keep the scope of ASA 701 consistent with the ISA and committed to reconsider this when conducting a PIR.

The AUASB has contributed to the IAASB's PIR activities related to ISA 701 since they first commenced in 2020. As communicated in the IAASB's Auditor Reporting Postimplementation Review [feedback statement](#) issued in June 2021, there was broad support for the communication of KAMs for listed entities,

¹ ISA / ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*

² ASA 701 paragraph 2

³ [Refer IAASB auditor reporting focus page](#)

however there was mixed views on whether the scope of ISA 701 should be expanded by the IAASB or to leave this up to each jurisdiction to decide. The IAASB agreed that the communication of KAMs for PIEs would be considered further by the [Listed Entity / PIE Project Task Force](#).

The AUASB is now seeking specific feedback from Australian stakeholders on whether the communication of KAMs in auditor's reports should be expanded beyond listed entities. Refer to section 3 of this consultation paper for the specific questions and feedback sought. We are seeking views from a broad range of stakeholders including auditors (large firms, smaller firms, public sector), regulators, those charged with governance, users of financial reports and academics.

This will inform the AUASB as they consider:

- the proposals of the IAASB's Listed entity/PIE project Task Force, and
- irrespective of whether the IAASB expand the scope of ISA 701, whether to expand the scope of reporting of KAMs in Australia ie. ASA 701.

It is important to note that this consultation paper is to seek initial views from stakeholders. If the AUASB proposes to amend ASA 701 in the future, this will follow the [AUASB's Due Process Framework](#) with additional outreach to develop any amendments to the standard and further opportunities for public comment.

2.Feedback received to date on KAMs

IAASB's PIR

The AUASB contributed to the IAASB's PIR and the results were communicated in a [feedback statement](#) in June 2021. The IAASB concluded that there was broad support for KAMs however there was mixed views on whether the scope of ISA 701 should be expanded beyond listed entities. There was:

- Support for mandatory communication of KAMs for PIEs with a strong preference for this to remain a jurisdictional decision, i.e., not to amend the scope of ISA 701.
- Lack of broad support to extend the communication of KAM beyond PIEs as costs were considered to exceed benefits for entities other than PIEs.
- Some support to require KAM for financial institutions, regulated entities, non-governmental organizations (or similar, depending on jurisdiction), and donor funded projects.

The IAASB agreed that the communication of KAMs for PIEs would be further considered by the [Listed Entity / PIE Project Task Force](#), which will review this issue over the course of 2023-24.

AUASB's PIR

Since the introduction of the enhanced auditor's report the AUASB have conducted extensive outreach to understand stakeholders' views on the benefits, as well as monitoring if there are any implementation issues. Through

this outreach it has been widely acknowledged that the addition of KAMs has been an improvement in the communicative value of the auditor's report for listed entities.

We have received (or observed) favourable feedback on the benefits of KAM reporting for listed entities from directors and investors through:

- The AUASB and FRC surveys to Audit Committee Chairs and Professional investors
- Preparers and other user groups (Australian Shareholders Association, AICD, Proxy Advisors).

The AUASB have approached the PIR for the auditor reporting standards in two phases.

During the first phase of the PIR we formally sought views on all aspects of the enhanced auditor's report to inform the AUASB in its response to the [IAASB's survey](#) which was the main component of their PIR. This included a question on whether communication of KAMs should be mandated beyond listed entities? The feedback we received was (mainly from auditors):

- The decision on the whether to communicate KAMs should be left to auditors based on their specific circumstances, including who are the users who will benefit from the communication.
- Some Auditor General offices are already reporting KAMs for significant public sector entities.

Feedback to date on the possible expansion of the communication of KAMs has been mainly informal and from auditors. Also, the feedback has been on the general question of whether to expand to "other entities" and not specific to any type of entity.

The second phase of the PIR is the formal consideration of whether the communication of KAMs should be expanded beyond listed entities and mandated for certain other types of entities (i.e. amend the scope of ASA 701). This consultation paper forms part of the second phase of our PIR.

3. Should ASA 701 be expanded to include other entities?

Overarching principle

When considering if the communication of KAMs is expanded beyond listed entities the overarching principle is whether this will improve the communicative value of the auditor's report, in particular if users may find this beneficial. However, this is often difficult to measure. Some of the questions to consider are:

- Are there users who do not have ready access to management and those charged with management, who may benefit from this communication?

- Will the communication increase the confidence in the quality of the audit and the financial report?
- Based on the overall purpose of KAMs and the intended benefits, is it in the public interest to communicate KAMs?

Options for the communication of KAMs

The AUASB has identified the following options for a requirement for the communication of KAMs.

Option 1: Listed entities only (i.e. No amendment to ASA 701)

It has been widely acknowledged that the addition of KAMs has been an improvement in the communicative value of the auditor's report for listed entities as the users do not have access to management and those charged with governance. Option 1 would retain the status quo and require no changes to ASA 701 and require KAMs to only apply to the auditor's report for listed entities.

Option 2: Listed entities plus certain types of other entities

This option acknowledges that it may be in the public interest to extend the application of KAMs beyond listed entities. The AUASB is interested in hearing feedback from stakeholders to consider what types of entities who prepare audited financial reports should include KAMs in their audit reports, and by which criteria this should be determined.

For the purposes of discussion, the AUASB has identified potential types of entities or groups of entities for whom KAM's may be applicable for consideration below:

For-profit entities

- Public Interest Entities as defined in [APES 110 Code of Ethics for Professional Accountants \(including Independence Standards\)](#) issued by the Australian Accounting Professional & Ethical Standards Board.
- Entities required by the Australian Accounting Standards⁴ (AAS) to prepare Tier 1 general purpose financial statements in recognition that different types of entities are subject to different financial reporting requirements based on their level of public accountability.
- Entities required to prepare and lodge audited financial reports prepared in accordance with the AAS under the *Corporations Act 2001* i.e. Tier 1 and Tier 2 general purpose financial reports.

Not-for-profit private sector entities

The population of not-for-profit private sector entities can be segmented based on the existing tiers and reporting obligations by the [Australian Charities and Not-for-profits Commission \(ACNC\)](#). For example this may result in the

⁴ [AASB 1053](#) Application of Tiers of Australian Accounting Standards

communication of KAMs for large not-for-profit entities who are required to prepare and lodge audited financial reports with the ACNC.

Option 3: All audited financial reports

In this option there is no segmenting of the population and KAMs would be communicated in all audit reports of general purpose financial reports. This recognises that if there is a requirement for an audit either by legislation or for another reason (which may be voluntary), there are users who may benefit from the communication of KAMs.

Based on feedback received to date the AUASB is unlikely to support this option due to the consideration of cost vs benefit in particular for very small entities or where there are limited users of the financial report. However we are interested any stakeholder views that are different to the AUASB on this point.

Specific questions for respondents

Question 1

Do you support **requiring** the communication of KAMs in the auditor's report for the following:

Option 1: Listed entities only (i.e. No amendment to ASA 701); or

Option 2: Listed entities plus certain other types of entities; or

Option 3: All audited financial reports.

Question 2

If in response to Question 1 above you support Option 2, which types of entities do you think auditors should be **required** to communicate KAMs?

Do you support one of the suggested ways to segment the population of entities described in this AUASB consultation paper; or is there another way you would segment the population of entities that KAM's should apply to?

Question 3

If you do not support any of the Options currently under consideration by the AUASB in this consultation paper, please provide suggestions for any alternative options the AUASB should consider when evaluating the population of entities that KAM's should apply to going forward.

Please provide detailed reasons to support your responses to the questions above.

4. Comment Closing Date and Next steps

The AUASB is seeking comments by **31 March 2023**. The feedback received will inform the AUASB:

- when considering the proposals of the IAASB's [Listed Entity / PIE Project Task Force](#), and
- when considering, irrespective of whether the IAASB expand the scope of ISA 701, whether to expand the scope of reporting of KAMs in Australia (i.e., ASA 701).

If the AUASB proposes to amend ASA 701 in the future, this will follow the [AUASB's Due Process Framework](#) with additional outreach to develop any amendments to the standard and further opportunities for public comment.



AUASB Agenda Paper

Title:	Technology	Date:	28 November 2022
ATG Staff:	Anne Waters	Agenda Item:	11

Recommendations and Questions for the Board

Question No.	Question for the Board
Question 1	Based on the update provided to AUASB Members are there any areas the AUASB Technology Project Advisory Group (TPAG) should provide further guidance on going forward?

Background and Previous Discussions on Topic

1. The objective of the AUASB's TPAG is to work with practitioners and regulators to consider the impact of technology on auditing / assurance and develop guidance to respond to these emerging developments. For example:
 - (a) Developing guidance to support the use of technology by auditors in executing audits and assurance engagements;
 - (b) Developing guidance to support auditors in addressing the risk created by technology in executing audits and assurance engagements; and
 - (c) Developing guidance on auditing the outputs of technology used by clients in areas critical to the audit.
2. To date the following has been issued:
 - (a) [The Consideration of Cyber Security Risks in an audit of a financial report](#) May 2021
 - (b) [Integrity of Data Obtained for the Purpose of an Audit of a Financial Report](#) August 2021
 - (c) [ASA 315 and the Auditor's Responsibilities for General IT Controls](#) June 2022
 - (d) [Evaluating the Reliability of Data Obtained for Use in Audit Technology Tools](#) November 2022

Matters for Discussion

3. The TPAG has recently had a number of new PAG members appointed, and AUASB Technical Group Staff have held or are holding preliminary meetings with all new and existing TPAG members to get their input into what should be the areas of focus for the TPAG in 2023.

AUASB Agenda Paper

4. In addition, following the release of the most recent ASIC Audit Inspection results AUASB Technical Group Staff have met with ASIC to discuss any findings relevant to Technology which may be considered by the TPAG.
5. The TPAG is meeting 30 November 2022 to discuss the next steps and areas where there is benefit in providing guidance to assist auditors. Some potential areas are:
 - (a) How to further use technology in the performance of a financial statement audit
 - (b) Further guidance on testing IT controls (GITCs and processing)
 - (c) Guidance for auditors relating to Emerging technologies (ie. Machine Learning, Artificial Intelligence)
 - (d) The use of SOC 1 reports
 - (e) ASQM 1 and use of external technology tools

Next steps/Way Forward

6. AUASB Technical Group Staff will develop an updated AUASB Technology Project Advisory Group plan following the next TPAG meeting on 30 November.
7. A further update will be provided to the AUASB at its March 2023 meeting.



AUASB Agenda Paper

Title:	Academic research informing the AUASB	Date:	28 November 2022
ATG Staff:	Anne Waters	Agenda Item:	16

Recommendations and Questions for the Board

Question No.	Question for the Board
Question 1	Do you have any feedback on how the matters identified below as “implications for the AUASB” from AUASB Research Report 8: ANCAAR – AUASB Research and Regulation Report should be considered by the AUASB going forward?

Background and Previous Discussions on Topic

- The AUASB’s [evidence informed standard setting \(EISS\) strategy](#) directs our activities to ensure that standard-setting deliberations and decisions are informed by relevant and reliable evidence and research. The EISS consists of three elements:
 - The knowledge and experience of informed parties including AUASB members;
 - Research activities; and
 - Information collection through stakeholder engagement.
- Research activities involve consideration of relevant academic research. The AUASB engage with academics who specialise in audit and assurance research through two different institutions, groups and research centres, including:
 - AFAANZ¹ Auditing and Assurance Special Interest Group (AASIG)
 - The Australian National Centre for Audit & Assurance Research (ANCAAR)
- AUASB staff attend conferences and present our strategic priority areas to both groups at least annually to communicate our research needs.
- ANCAAR approached the AUASB Technical Group (ATG) to co-brand and run a workshop on the AUASB’s agenda and invite academics who have conducted research in these areas. The ANCAAR-AUASB Research and Regulation Workshop (the Workshop) was held in September 2022 with AUASB staff presenting our strategic priorities, invited academics presenting existing research papers and the implications to the AUASB.
- [AUASB Research Report 8: ANCAAR – AUASB Research and Regulation Report](#) summarises presentations from the Workshop, including implications for the AUASB.

¹ Accounting and Finance Association of Australia and New Zealand

Matters for Discussion and ATG Recommendations

6. In the table below are some of the matters identified by the authors of the research papers from the Workshop that may have implications for the AUASB, and the ATG's response to how this is being actioned / considered by the AUASB.
7. **Note that the matters included in the table are not a full list of all the matters included in the AUASB Research Report, as some of the matters are not within the AUASB's mandate and are more relevant for other policy makers including the government.** Some of these matters will be referred to other relevant parties if considered necessary. Also, some of the points below are not strictly within our mandate however are relevant from a public interest perspective and have been included for noting by the AUASB.

Matter raised in AUASB Research Report		ATG response
Informing Audit and Assurance Regulatory Reforms		
1	Better interaction needed between academics and the profession in agreeing on the key research questions and providing the data to address those questions.	Agree and will be considered on an ongoing basis.
Sustainability Assurance		
2	With trend in Australia to integration of financial and non-financial information in the annual report, the AUASB should educate the Australian market on the contribution and value of integrated reporting assurance.	The AUASB is continually educating the market on the value of assurance including assurance over non-financial information (e.g. through the recently released AUASB Sustainability Assurance Update – October 2022).
3	AUASB should consider a market communication as to what is possible now in the context of the systemic changes being worked on by the IFRS Foundation, focusing on what can be achieved under existing assurance standards.	Already actioned through AUASB Sustainability Assurance Update – October 2022 . Updates will be issued as considered necessary.
4	While integrated reporting assurance engagements are currently being undertaken under ISAE 3000, as broader information is increasingly being included in the annual report, the AUASB will need to consider the relationship between Australian Standards on Auditing (ASAs) and Australian Standards on Assurance Engagements (ASAEs), and the role of ASA 720 <i>The Auditor's Responsibilities Relating to Other Information</i> .	Will be considered as part of the IAASB Sustainability Assurance Project, and by the AUASB as sustainability reporting and assurance standard setting continues to develop.
5	Significant recent increase in climate-related disclosures in the Annual Report by listed companies in Australia, but most are outside the financial statements, thus covered by ASA 720. This disclosure trend increases the importance of ensuring that ASA 720 is fit for purpose in current environment. There are concerns as to whether the ASA 720 level of involvement of auditor is correct and understood.	Will be considered as part of the IAASB Sustainability Assurance Project, and by the AUASB as sustainability reporting and assurance standard setting continues to develop. In addition, a research project is currently underway analysing reporting by Australian auditors of listed entities under ASA 720. This will inform the AUASB on current reporting practices.

AUASB Agenda Paper

Matter raised in AUASB Research Report		ATG response
6	Various forms of credibility-enhancing mechanisms other than independent assurance, such as the disclosure of the processes underpinning the integrity of non-financial reports, are emerging. The AUASB should consider these creditability-enhancing mechanisms in their deliberations on the reforms to the assurance standards on sustainability reporting.	Will be considered as part of the AUASB's Sustainability Assurance Project as sustainability reporting and assurance standard setting continues to develop. As sustainability reporting evolves and there is more clarity as to where this information will be disclosed and whether assurance will be mandated, the AUASB will engage with the ASX Corporate Governance Council to ensure alignment with their principles and recommendations and our standards.
7	There should be clarity as where EER assurance fees are disclosed (AASB). As independence concerns are lower for categories of assurance and audit-related fees, compared with NAS fees, fees for such assurance engagement should not be included in NAS fees.	To be referred to the AASB. Current proposals by the NZASB have included assurance work on Sustainability reporting in a revised Audit Fees Disclosure ED.
8	There are benefits of improved audit quality without significant increase in audit costs when companies engage their financial statement auditor as EER assurance provider.	Noted by the AUASB. Will be referred to ASIC and other regulators.
9	While most engagements assurance or climate-related information still only provide limited assurance, there is a trend occurring in the Australian market to assurance reports containing both reasonable and limited assurance. There is no clear guidance provided for such reports. Implications and need for guidance should be considered.	Will be considered as part of the IAASB Sustainability Assurance Project, and by the AUASB as sustainability reporting and assurance standard setting continues to develop.
Public sector auditing		
10	When and why are KAMs reported in the public sector, and is this reporting valuable to public sector stakeholders? Should KAM reporting be mandated for certain entities?	To be considered as part of the scope of KAM Project and by the Public Sector PAG.
11	ASAE 3500 currently only refers to the three E's (economy, effectiveness, and efficiency). Ethics is the fourth E in the PGPA Act. Should ASAE 3500 include ethics?	To be considered as part of the AUASB's ASAE 3500 post implementation review planned for the first half of 2023.
Reporting on internal controls		
12	There is evidence that reporting of internal control effectiveness has resulted overseas (US) in an improvement in financial reporting controls.	Will be considered as we monitor the government response to the PJC Inquiry into Regulation of Auditing in Australia. The AUASB is engaging with the ASX Corporate Governance Council about whether recommendation 4.2 should be enhanced.

AUASB Agenda Paper

Matter raised in AUASB Research Report		ATG response
13	Not clear whether benefit of assurance exceeds costs, especially for small companies.	Will be considered as we monitor the government response to the PJC Inquiry into Regulation of Auditing in Australia. The AUASB is engaging with the ASX Corporate Governance Council about whether recommendation 4.2 should be enhanced.
14	Internal control certification (SOX) in Australia should remain voluntary due to the significant costs associated with mandatory and audited internal control certification. There is some evidence that ASX Corporate Governance Principles and Recommendations 4.2 CEO and CFO sign offs may be effective if well implemented.	Will be considered as we monitor the government response to the PJC Inquiry into Regulation of Auditing in Australia. The AUASB is engaging with the ASX Corporate Governance Council about whether recommendation 4.2 should be enhanced.
Less Complex Entities		
15	Given that agency conflicts in small and less complex entities can be very different from those in large and complex entities, concern that proposed auditing standard for LCE may not be effective in meeting its intended purpose. AUASB should consider nature of agency relationships and their implications for assurance of LCEs.	To be considered as part of the AUASB's response to developments arising from the IAASB's LCE project.
16	For small charities, entities are electing to have an audit and not a review possibly due to: <ul style="list-style-type: none"> • as an audit level of knowledge is required for review engagements there is no saving on work effort; • methodologies are mainly developed for audits; • client did not understand or desire limited assurance engagement; and • a substantive approach consistent with audit was the most appropriate approach to these types of engagements. 	Will be communicated to the ACNC and is being considered as part of the AUASB's Not-for-Profit Project.
17	There may be benefits from exploring new types of engagements for audits of less complex charities, similar to the UK examination engagement (UK Charity Commission), which is effectively a combination of review engagement procedures and agreed upon procedures desired by the regulator.	Will be communicated to the ACNC and will be considered as part of the AUASB's Not-for-Profit Project.

AUASB Agenda Paper

Matter raised in AUASB Research Report		ATG response
18	For small charities, concerns were identified around quality of audits. In particular, financial reporting framework not being followed (suggests AASB consider providing example of what sort of wording to include if Australian Accounting Standards not being followed (AASB)), and disclosure in audit report of responsibilities of management and Those Charged With Governance (TCWG) not clear (suggesting current standard wording of AUASB in audit report which talks about separate responsibilities of Mgt and TCWG does not work). Suggest AUASB consider alternative wording for responsibilities of management and TCWG for very small entities.	Will be communicated to the ACNC and will be considered as part of the AUASB's Not-for-Profit Project. Note also the AASB's tier 3 project is simplifying reporting for small charities.
Going Concern		
19	When reported for the first time, a GC opinion is news, and it is noticed. Ongoing GC opinions are discounted by the market. Also reporting going concern matters in all audit reports investors may dismiss such communication.	Will be considered as part of the IAASB's Going Concern project.
20	AASB and AUASB should consider use of different terms used to clearly signal the seriousness of an issue related to GC (applies to company disclosures as well as audit reports).	Will be considered as part of the IAASB's Going Concern project. Note that the Auditing Standards already distinguish seriousness of going concern matter (i.e., Material uncertainty vs a Key Audit Matter).
21	AUASB should consider clearer guidelines for auditors on when to use different types of GC opinions, and AASB to consider how companies report threats to their going concern status.	Will be considered as part of the IAASB's Going Concern project. The IAASB publication on Reporting Going Concern Matters in the Auditor's Report provides guidance on reporting Going Concern matters. AUASB have already communicated feedback to the AASB on this matter.
22	Going concern reporting options (i.e., KAM vs Material Uncertainty Relating to Going Concern) affect investor decision making.	Will be considered as part of the IAASB's Going Concern project. Indicates the use of the term MURGC is effective.
Fraud		
23	Should Australian auditing standards be updated to consider whistleblowing-related audit procedures. Little reference at the moment.	An Australian legislative matter to be considered as part of the AUASB's Fraud project.
24	Can auditors in Australia better leverage off companies' internal whistleblowing systems and procedures to better assess fraud risks? Can auditors rely more on internal auditors who should have better knowledge, and how can this be reflected in AUASB standards?	An Australian legislative matter to be considered as part of the AUASB's Fraud project.



List of AUASB Pronouncements and Abbreviations

Australian Auditing Standards

#	Title	Operative date
ASQM 1	Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements	Commencing 15 December 2022
ASQM 2	Engagement Quality Reviews	Commencing 15 December 2022
ASA 101	Preamble to AUASB Standards	Commencing 15 December 2021
ASA 102	Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements	Ending 31 December 2019
ASA 200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards	Commencing 15 December 2021
ASA 210	Agreeing the Terms of Audit Engagements	Commencing 15 December 2021
ASA 220	Quality Control for an Audit of a Financial Report and Other Historical Financial Information	Commencing 15 December 2021
ASA 230	Audit Documentation	Commencing 15 December 2021
ASA 240	The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report	Commencing 15 December 2021
ASA 250	Consideration of Laws and Regulations in an Audit of a Financial Report	Commencing 15 December 2021
ASA 260	Communication With Those Charged with Governance	Commencing 15 December 2021
ASA 265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management	Commencing 15 December 2021
ASA 300	Planning an Audit of a Financial Report	Commencing 15 December 2021
ASA 315	Identifying and Assessing the Risks of Material Misstatement	Commencing 15 December 2021
ASA 320	Materiality in Planning and Performing an Audit	Commencing 15 December 2021
ASA 330	The Auditor's Responses to Assessed Risks	Commencing 15 December 2021
ASA 402	Auditing Considerations Relating to an Entity Using a Service Organisation	Commencing 15 December 2021
ASA 450	Evaluation of Misstatements Identified during the Audit	Commencing 1 January 2018
ASA 500	Audit Evidence	Commencing 15 December 2021
ASA 501	Audit Evidence—Specific Considerations for Inventory and Segment Information	Commencing 15 December 2021
ASA 502	Audit Evidence – Specific Considerations for Litigation and Claims	Commencing 15 December 2021



#	Title	Operative date
ASA 505	External Confirmations	Commencing 15 December 2021
ASA 510	Initial Audit Engagements - Opening Balances	Commencing 15 December 2021
ASA 520	Analytical Procedures	Commencing 15 December 2021
ASA 530	Audit Sampling	Commencing 15 December 2021
ASA 540	Auditing Accounting Estimates and Related Disclosures	Commencing 15 December 2021
ASA 550	Related Parties	Commencing 15 December 2021
ASA 560	Subsequent Events	Commencing 15 December 2021
ASA 570	Going Concern	Commencing 15 December 2021
ASA 580	Written Representations	Commencing 15 December 2019
ASA 600	Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)	Commencing 15 December 2021
ASA 610	Using the Work of Internal Auditors	Commencing 15 December 2021
ASA 620	Using the Work of an Auditor's Expert	Commencing 15 December 2021
ASA 700	Forming an Opinion and Reporting on a Financial Report	Commencing 15 December 2021
ASA 701	Communicating Key Audit Matters in the Independent Auditor's Report	Commencing 15 December 2021
ASA 705	Modifications to the Opinion in the Independent Auditor's Report	Ending 15 July 2020
ASA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	Ending 15 July 2020
ASA 710	Comparative Information Corresponding Figures and Comparative Financial Reports	Commencing 15 December 2021
ASA 720	The Auditor's Responsibilities Relating to Other Information	Commencing 15 December 2021
ASA 800	Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks	Commencing 15 December 2021
ASA 805	Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement	Ending 15 December 2016
ASA 810	Engagements to Report on Summary Financial Statements	Ending 15 December 2016



Standards on Review Engagements

#	Title	Operative date
ASRE 2400	Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity	Commencing 1 January 2018
ASRE 2405	Review of Historical Information Other than a Financial Report	Commencing 1 October 2008
ASRE 2410	Review of a Financial Report Performed by the Independent Auditor of the Entity	Commencing 1 July 2020
ASRE 2415	Review of a Financial Report: Company Limited by Guarantee or an Entity Reporting under the ACNC Act or Other Applicable Legislation or Regulation	Commencing 15 December 2021

Standards on Assurance Engagements

#	Title	Operative date
ASAE 3000	Assurance Engagements Other than Audits or Reviews of Historical Financial Information	Commencing 1 January 2018
ASAE 3410	Assurance Engagements on Greenhouse Gas Statements	Commencing 1 January 2018
ASAE 3420	Assurance Engagements to Report on the Compilation of Pro Forma Historical Financial Information included in a Prospectus or other Document	Commencing 1 January 2015
ASAE 3610 / AWAS 2	Assurance Engagements on General Purpose Water Accounting Reports	Commencing 1 January 2015
ASAE 3450	Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information	Commencing 1 July 2013
ASAE 3100	Compliance Engagements	Commencing 1 January 2018
ASAE 3150	Assurance Engagements on Controls	Commencing 1 January 2016
ASAE 3402	Assurance Reports on Controls at a Service Organisation	Commencing 1 January 2018
ASAE 3500	Performance Engagements	Commencing 1 January 2018

Standards on Related Services

#	Title	Operative date
ASRS 4400	Agreed-Upon Procedures Engagements	Commencing 1 January 2022
ASRS 4450	Comfort Letter Engagements	Commencing 1 July 2013



Guidance Statements

#	Title	Operative date
GS 001	Concise Financial Reports Under the Corporations Act 2001	May 2017
GS 002	Audit Implications of Prudential Reporting Requirements for Registered Superannuation Entities	January 2014
GS 003	Assurance Relating to Australian Financial Services Licences issued under the Corporations Act 2001	September 2022
GS 004	Audit Implications of Prudential Reporting Requirements for General Insurers and Insurance Groups	May 2013
GS 005	Evaluating the Appropriateness of a Management's Expert's Work	March 2020
GS 006	Electronic Publication of the Auditor's Report	March 2010
GS 007	Audit Implications of the Use of Service Organisations for Investment Management Services	October 2011
GS 008	The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001	March 2010
GS 009	Auditing Self-Managed Superannuation Funds	June 2020
GS 010	Responding to Questions at an Annual General Meeting	September 2021
GS 011	Third Party Access to Audit Working Papers	April 2009
GS 012	Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions (ADIs) and ADI Groups	September 2020
GS 013	Special Considerations in the Audit of Compliance Plans of Managed Investment Schemes	August 2009
GS 014	Auditing Mortgage Schemes	August 2009
GS 015	Audit Implications of Accounting for Investments in Associates	November 2009
GS 016	Bank Confirmation Requests	June 2022
GS 017	Audit Implications for Prudential Reporting Requirements of a Life Company	December 2014
GS 018	Franchising Code of Conduct – Auditor's Reports	May 2017
GS 019	Auditing Fundraising Revenue of Not-for-Profit Entities	April 2011
GS 020	Special Considerations in Auditing Financial Instruments	March 2012
GS 021	Engagements under the National Greenhouse and Energy Reporting Scheme, Carbon Pricing Mechanism and Related Schemes	November 2012
GS 022	Grant Acquittals and Multi-Scope Engagements	June 2015
GS 023	Special Considerations - Public Sector Engagements	June 2022



Abbreviations

AASB	Australian Accounting Standards Board
ACNC	Australian Charities and Not-for-profits Commission
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
ASA	Australian Auditing Standard
ASAE	Australian Standard on Assurance Engagements
ASIC	Australian Securities and Investments Commission
ASIC Act	<i>Australian Securities and Investments Commission Act 2001</i>
ASRE	Australian Standard on Review Engagements
AUASB	Auditing and Assurance Standards Board
CA ANZ	Chartered Accountants Australia and New Zealand
CER	Clean Energy Regulator
CPA	CPA Australia
EER	Extended External Reporting
FRC	Financial Reporting Council
GPFS	General Purpose Financial Statements
GST	Goods and Services Tax
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors
ISA	International Standard on Auditing
ISSB	International Sustainability Standards Board
NFP	Not-for-Profit
NSS	National Standards Setters
NZAuASB	New Zealand Auditing and Assurance Standards Board
OHSC	Occupational Health and Safety Committee
PGPA Act	<i>Public Governance, Performance and Accountability Act 2013</i>
PSA	<i>Public Service Act 1999</i>
SME	Small and Medium Enterprises
SMSF	Self-Managed Superannuation Fund



List of AUASB Communications and Publications since 1 July 2022

Date	Communication/Publication
21 July 2022	Consultation Paper – <i>Exposure of the IAASB's Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised) as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)</i>
28 July 2022	AASB-AUASB joint submission on ISSB Exposure Drafts on [Draft] IFRS S1 <i>General Requirements for Disclosure of Sustainability-related Financial Information</i> and [Draft] IFRS S2 <i>Climate-related Disclosures</i>
8 August 2022	New update to AUASB Digital Standards Portal
12 August 2022	Registration for joint AUASB/APESB Webinar on Proposed IAASB Changes to the Auditor's Report in Response to IESBA Code of Ethics Revisions relating to Public Interest Entities (PIEs) (held on Friday 26 August 2022)
14 September 2022	Revised GS 003 <i>Assurance Relating to Australian Financial Services Licenses issued under the Corporations Act 2001</i>
19 September 2022	ANCAAR and AUASB Audit and Assurance Research and Regulation Workshop (held on 15 and 16 September)
26 September 2022	AUASB welcomes IOSCO statement of support for IAASB development of Sustainability Assurance Standards
28 September 2022	AICD-AUASB joint publication – <i>Periodic Comprehensive Review of the External Auditor</i>
6 October 2022	Release of Australian Accounting Hall of Fame Colin Ferguson Oration by AUASB Chair – Recent Developments in Sustainability Reporting
7 October 2022	AUASB <i>Sustainability Assurance Update – October 2022</i>
28 October 2022	AUASB Board Chair Response to ASIC Audit Inspection Report: 1 July 2021 to 30 June 2022
4 November 2022	IAASB Publication – <i>Reporting Going Concern Matters in the Auditor's Report</i>
4 November 2022	AUASB Research Report 8: <i>ANCAAR – AUASB Research and Regulation Workshop</i>
9 November 2022	AUASB Bulletin – <i>Evaluating the Reliability of Data obtained for Use in Audit Technology Tools</i>
10 November 2022	FRC Appoints New Board Members to AUASB
11 November 2022	November 2022 AUASB Newsletter



Feedback Statement 2022–2023 AUASB Agenda Consultation

Enquiries

This AUASB consultation paper is available on the AUASB website.

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1. Introduction

The Auditing and Assurance Standards Board (AUASB) is an independent, non-corporate Commonwealth entity of the Australian Government, responsible for developing, issuing and maintaining auditing and assurance standards.

As outlined in the AUASB's [*Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications*](#) the AUASB undertakes a formal agenda consultation process with stakeholders at least once every five years to identify issues that need resolution. This process complements the AUASB's regular consultations with stakeholders to obtain timely feedback on current and emerging auditing and assurance issues, and helps the Board fulfil its strategic objectives, particularly allocating its limited resources appropriately to address the highest priority topics identified by its stakeholders.

The AUASB uses, as appropriate, the standards of the International Auditing and Assurance Standards Board (IAASB) as a base from which to develop Australian Auditing and Assurance Standards. Nonetheless, a local agenda consultation process is necessary to identify Australian auditing and assurance issues not covered by the IAASB that the AUASB could address. The AUASB's previous local agenda consultation was undertaken in late 2017.

In May 2022, the AUASB issued a Consultation Paper on the [*AUASB Agenda Consultation 2022-23*](#) for comment by 29 July 2022. The objective of the Consultation Paper was to gather views from Australian stakeholders on the projects the AUASB should address in the next few years and to identify other emerging Australian auditing and assurance issues the AUASB should include in its future Work Programs.

Agenda Consultation questions

The AUASB Agenda Consultation paper included the following questions for stakeholder feedback:

1. Do you agree with the strategic priorities and projects which are currently included on the AUASB's Work Program and what priority would you give to each of these projects?
2. Are there any inactive or yet to commence projects you think should be retained on the AUASB's upcoming Work Program and what priority would you give to each of these projects?
3. Are there any additional projects not included on the AUASB's Work Program that you consider to be a priority?
4. How would you like the AUASB to address current International Auditing and Assurance Standards Board (IAASB) projects and what priority would you like the AUASB to give to these projects?
5. Do you have any additional comments on the AUASB's current or future activities and Work Program?

What is the purpose of this feedback statement?

This feedback statement summarises the feedback received on the AUASB Agenda Consultation and the AUASB's decisions to address this feedback on its 2022–2023 technical work program.

2. Summary of outreach and responses

Feedback was received from more than 60 stakeholders from all sectors, including:

- Auditors
- Users
- Preparers
- Regulators/ policymakers
- Academics; and
- Professional Bodies.

The AUASB received four comment letters in response to the Consultation Paper from:

- Institute of Public Accountants (IPA)
- Accounting Professional & Ethical Standards Board (APESB);
- Chartered Accountants Australia and New Zealand (CA ANZ); and
- CPA Australia.

The AUASB Staff held five roundtable sessions throughout the consultation period, comprised of:

- two in-person roundtables (in Melbourne, which was held part of the June 2022 AUASB meeting, and in Perth. Planned sessions in Brisbane and Sydney were not held due to a lack of registrations); and
- three online roundtables (one roundtable with the CA ANZ Audit and Assurance Advisory Panel, one targeted at representatives from Mid Tier audit firms and one general roundtable open to all members of the public).

3. Feedback received

At the [September 2022 meeting](#), the AUASB Board discussed the feedback received on the AUASB Agenda Consultation process.

The following key themes were evident in the feedback received from stakeholders:

1. All stakeholders provided broad support for the AUASB to progress, as a high priority, with the development of a sustainability assurance framework for local application which is aligned with the IAASB, but also fit for purpose in Australia. Stakeholders also noted that, in relation to sustainability assurance, it will be important for the AUASB to consider:
 - (a) the role of experts/specialists and new/revised frameworks to verify information;
 - (b) the need for different levels of assurance of such information; and
 - (c) the limited resources and expertise available to smaller practitioners.
2. Many stakeholders noted that issues in relation to audit quality are primarily driven by the application of auditing standards and linked to a growing skill gap and the challenges of remote working. As such, stakeholders provided support for further implementation resources, the identification of different audit quality targets and the removal of the inconsistent requirements between legislation/regulation and the AUASB Standards.
3. Several stakeholders indicated that, although a standalone LCE Audit Standard will be beneficial to audit quality, the current proposals in the IAASB's Exposure Draft are not fit for purpose and add to the growing burden on auditors. Stakeholders provided support for the

AUASB to influence the scope of the standard at an international level to ensure Australia's views are reflected in the final standard.

4. In relation to Technology, some stakeholders gave feedback that was supportive of the role the Technology PAG currently has incorporating new technologies into the audit function, but noted that the AUASB should consider further guidance on how the current auditing standards can be applied to new and emerging areas such as blockchain and digital assets.
5. A few stakeholders gave feedback that the AUASB should update certain AUASB Guidance Statements, including:
 - (a) GS 007 (Outsourced Investment Management) – Several implementation issues were noted, which should be addressed through guidance as a priority due to the increased regulatory focus.
 - (b) GS 003 (AFSLs) – As this is a complicated area of practice, the guidance statement should be updated regularly to reflect developments and provide clarity and alignment with AASB Standards and ASIC financial reporting changes.
 - (c) GS 019 (Charity Fundraising) – This Guidance Statement should be revised and modernised, as it is out-of-date.
6. Some stakeholders indicated that the knowledge gap in relation to the auditors work on Going Concern continues to be an issue, and that AUASB should work with the AASB, FRC and other relevant bodies to address this. Many of the same stakeholders also indicated that a more robust framework is needed for assessing and documenting Fraud Risk, particularly for the audits of smaller entities.
7. Other relevant points included feedback to the AUASB on the following topic areas:
 - (a) Streamlining audit requirements for Not-for-Profit entities and the consideration of the impacts of digital reporting in NFPs, including digital fundraisings.
 - (b) The low number of Review Engagements being undertaken and the need for additional research in this area to determine whether the AUASB Standards on limited assurance engagements remain fit for purpose.
 - (c) A request for more guidance on the sufficiency of Audit Evidence due to misunderstanding around the quantity versus quality of evidence (specifically in connection to the upcoming revisions to ASA 500).

4. AUASB Decisions

The AUASB assessed the value and resourcing requirements of potential projects arising from feedback received from the AUASB Agenda Consultation process against the AUASB strategic directions and existing strategic priority areas after considering various factors, including:

- the importance of the issue to stakeholders;
- the urgency of addressing the issue, considering the input of other relevant regulators and evidence of the impact of not addressing the issue;
- interactions with other current or possible projects;
- the complexity and breadth of the problem to be resolved, and the feasibility of potential solutions;
- stakeholder capacity to respond to proposals, both as individual proposals and across the work program as a whole;

- the overall balance of the AUASB work plan (i.e., ensuring a balance of priorities across different sectors and stakeholder groups); and
- the availability of sufficient AUASB staff resources.

All of the current project and priority areas promoted in the AUASB's Consultation Paper were either endorsed or not objected to by stakeholders who responded to our request for feedback. Accordingly, the following AUASB Priority Areas have been retained as key areas of focus in the 2022-23 AUASB Technical Work Program:

Priority Area	Details	What we've done	What we will do
IAASB Agenda	Continuing focus on monitoring and responding to current IAASB Projects	<ul style="list-style-type: none"> • Group Audits • LCE • QM Amendments 	<ul style="list-style-type: none"> • Audit Evidence • Going Concern • Fraud
Sustainability Assurance	Influence local and global Sustainability Reporting and Assurance developments	<ul style="list-style-type: none"> • AASB/AUASB Project Advisory Panel • IAASB EER Guidance • FRC/AASB/AUASB Position Statement • AASB and AUASB Joint Staff Article 	<ul style="list-style-type: none"> • IAASB Sustainability Proposals • Local interim guidance before IAASB standards
Audit Quality	Work with the FRC and others to drive audit quality improvements	<ul style="list-style-type: none"> • PJC Inquiry Responses • FRC Audit Quality Action Plan • ASIC Inspection and Quality Management Standards Bulletins • Audit Committee Chairs Surveys 	<ul style="list-style-type: none"> • Reviews of ASIC Inspection Process and Findings • FRC Audit Quality Action Plan • Audit Committee Chair Interviews • Joint AICD Publication
Technology	Identify how existing AUASB standards can be effectively applied on Technology matters	<ul style="list-style-type: none"> • Technology Project Advisory Group • Data Integrity & Cyber Guidance Bulletins • ISA 315 GITC FAQs 	<ul style="list-style-type: none"> • Complete Data Reliability publication • Revised PAG membership • New guidance on non-audit assurance
Public Sector	Develop specific guidance on public sector audit issues	<ul style="list-style-type: none"> • Public Sector Project Advisory Group • New Guidance Statement <ul style="list-style-type: none"> ○ Framework ○ Engagement Letters ○ Going Concern 	<ul style="list-style-type: none"> • Update Guidance Statement to also include: <ul style="list-style-type: none"> ○ Engagement Leader responsibilities ○ Quality Management • Post Implementation Review of Performance Audit Standards

In addition to the above priority areas the AUASB agreed to add a new Priority Area covering 'Scalability' which will incorporate:

- all current LCE activities and any future IAASB developments relating to the proposed LCE Standard, including outreach to assess if an LCE standard should be applied in Australia;
- our current and future actions to improve the legislative drafting of audit and assurance requirements (referred to as 'Prescribed Reporting'); and

- (c) a specific focus on audit issues associated with Not for Profit (NFP) entities, particularly as the AASB increases their activity on reporting issues that impact the NFP Sector.

Implementation activities associated with the Quality Management Standards is no longer considered a specific Priority Area by the AUASB, noting that the implementation timetable for these standards has moved to a more operational phase. The AUASB Technical Group will monitor developments related to the implementation of the Quality Management Standards, but don't plan to commence any specific projects on this issue.

The following graphic summarises the revised AUASB Strategic Priority Areas for 2022-23.



5. Next Steps

A detailed 2022-23 AUASB Technical Work Program addressing all the priority areas and projects described in this feedback statement has been developed by the AUASB Technical Director under the supervision and approval of the AUASB Chair.

The detailed 2022-23 AUASB Technical Work Program is monitored fortnightly by staff, is reported against each quarter to the AUASB and FRC, and published regularly on the AUASB Website.

Contact enquiries@auasb.gov.au for any queries.



AUASB Agenda Paper

1.	Title:	Appendix 1 to Agenda Paper 4.1	2.	Date:	18 November 2022
3.	ATG Staff	Rene Herman	4.	Agenda Item:	4.1.1

This Appendix contains a high-level summary of considerations into the proposals of transparency in the auditor's report

Going Concern

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

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

- Input from stakeholders' responses to the Discussion Paper
 - Feedback from the Expectation Gap roundtable held in September 2020
 - Feedback from the Auditor Reporting PIR
 - EOM, OM, KAM, MURGC – purpose of paragraphs confusing, and distinctions not clearly understood
 - Calls for MURGC to contain information similar to KAM so a fuller story is told
 - Separate section on MURGC seen to be beneficial – separate section gives prominence and visibility
 - Mixed views – more vs length and complexity
 - Academic Research
- a. *Some considerations for not enhancing content in auditor's report – (extracted from content in May 2021 IAASB papers):*
- Adding length to the auditor's report about going concern in all circumstances is likely to unbalance the report, overly focusing on issues and possibly even exacerbating the expectation gap.
 - Lengthy disclosures about going concern may result in a self-fulfilling prophecy, making users nervous about going concern even in circumstances where going concern risks was low.
 - The auditor does not conclude on the ability of the entity to continue as a going concern and should avoid additional wording that may imply otherwise

- Listing procedures performed is not overly useful as users are most interested in whether the auditor identified issues. The auditor is already required to report a MURGC or a KAM in the close call situations.
- Education may be a more effective tool to educate users on the scope of the auditor's work related to going concern.
- Further discussion on going concern in the auditor's report may become boilerplate in nature, which is not useful or meaningful.
- The auditing standard has sufficient reporting requirements, but the accounting standards need to be enhanced with respect to the going concern assessment

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

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

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

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

- *Academic study "Investor Reaction to Auditors' Going Concern Emphasis of Matter: Evidence from a Natural Experiment" (2019).* Results from the study support the argument that vague Going Concern financial statement disclosures are more difficult to assess. The authors suggest

that in order to increase the informativeness of financial statements, standard setters may consider improving the content of existing disclosures.

- *Academic study "Measuring the Market Response to Going Concern Modifications: The Importance of Disclosure Timing" (2018:):* This study finds that the incremental effect of the market reaction to an opinion noting uncertainty about the entity's ability to continue as a going concern was weak and smaller in magnitude than that found previously in the academic literature.
- *Academic study "Going-concern Uncertainties in Pre-bankrupt Audit Reports: New Evidence Regarding Discretionary Accruals and Wording Ambiguity" (2008):* This study found that a large percentage of opinions noting issues with the entity's ability to continue as a going concern are written ambiguously and with an overuse of conditional language.
- *Academic Study "A Synthesis of Research on Auditor Reporting on Going Concern Uncertainty: An Update and Extension" (2019):* This study suggests that an auditor's report noting uncertainty about an entity's ability to continue as a going concern is unlikely to send a company into bankruptcy. However, there are studies that found associations between auditor reports noting issues with a company's ability to continue as a going concern and increases in companies' cost of equity capital, downgrades in credit ratings, share price consequences to equity owners, investor perceptions about audit quality, and subsequent auditor litigation.

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

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

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

Refer to Appendix 2 at Agenda Item 4.1.2 for a summary of current IAASB proposals being deliberated by the IAASB.

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

a. *The AUASB's submission to the IAASB's Discussion Paper (extracted)*

- Overall, we received mixed views from stakeholders about whether increasing transparency in relation to going concern in the auditor's report would assist in reducing the expectation gap. The AUASB did consider that there is a knowledge gap which could be addressed by further transparency about the auditor's work in the auditor's report. However, the AUASB encouraged the IAASB to further engage with users as to whether more reporting about the auditor's work in relation to going concern would be beneficial. More reporting could be about the auditor's responsibility in relation to going concern and how they have fulfilled this for all audits, and / or more reporting if going concern is a KAM or a MURGC. However, if the auditor is required to disclose more in the audit report about the auditor's responsibility or audit procedures undertaken in relation to going concern this should be fully aligned with the reporting of management's and TCWG's responsibility so as to not further increase the expectation gap. We note the competing issues that more transparency leads to more words, with the risk this reduces understandability or readability of the auditor's report Feedback from the Expectation Gap roundtable

b. *Academic Research (Australia)*

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

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

The ATG is generally supportive of enhancements to transparency in order to advance the auditor reporting objectives. The ATG has concerns regarding Boilerplate disclosures (as noted by the monitoring group and other stakeholders in their feedback to the IAASB); and differential reporting (i.e. reporting for Listed entities only) particularly for 'close call' scenarios (see Agenda Item 4.1.2).

Fraud

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

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

- Input from stakeholders' responses to the Discussion Paper

- Feedback from the Expectation Gap roundtable held in September 2020
- Feedback from the Auditor Reporting PIR

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

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

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

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

- may be helpful in enhancing the degree of confidence of intended users in the financial statements
- Supported through the Auditor Reporting Post-Implementation Review
- Monitoring Group

c. *Academic Research (internationally)*

No Academic Research on fraud reporting noted in IAASB papers

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

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

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

a. *The AUASB's submission to the IAASB's Discussion Paper (extracted)*

- The AUASB and its stakeholders have mixed views about increasing transparency in relation to fraud with TCWG and/or in the audit report. It was strongly agreed by stakeholders that if the auditor were required to disclose more in the audit report about the audit procedures undertaken in relation to fraud that this would be coupled with more transparency around the responsibilities of management and TCWG in relation to the prevention and detection of fraud. This may be achieved in Australia through the director's declaration or the equivalent Director responsibility statements used in other jurisdictions. Some stakeholders called for greater transparency from auditors in relation to identified significant controls' deficiencies and weaknesses. Views were expressed that it may be appropriate for auditors to report significant internal control deficiencies as a KAM in the audit report. Others called for additional information to be disclosed by management, e.g. management assessment of risk of fraud. Such additional information, where relevant, could prompt commentary from auditors in their report. Requiring disclosure of materiality judgements in the auditor report was another suggestion. However, there were also opposing views were that auditor reports are already too long and too difficult to understand. Concerns were also raised about the possible increase in auditor liability if including

more in their audit report. There was consensus however that if there is more to be said in the auditors' report it has to be bespoke and tailored to the audited entity and not 'boiler plate' statements with little specificity to the entity.

b. Academic Research (Australian Academics)

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

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

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

After obtaining user feedback and in considering the matters referred to in this paper, the IAASB Task Force at the September 2022 IAASB meeting proposed to enhance transparency in the auditor's report on fraud by including a separate section that encompasses a description of:

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

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

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

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

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

Attachment 1 to Appendix 1:

Going Concern Academic Research Literature Review (Extracted directly from the May 2021 IAASB papers)

Introduction

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

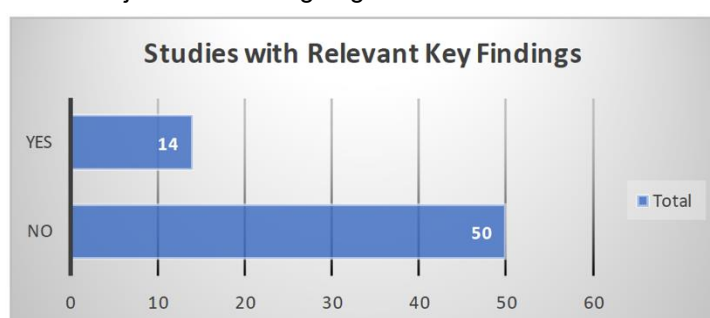
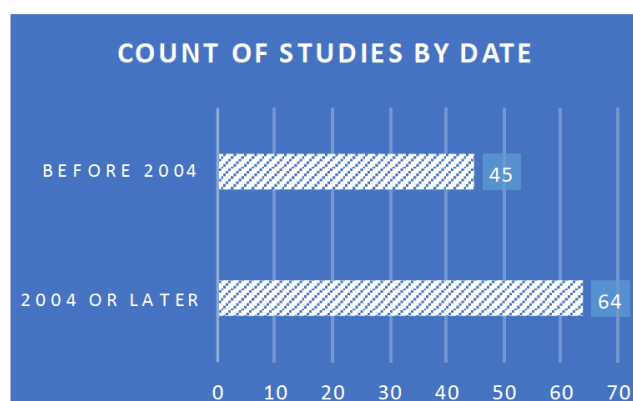
1. Outlines the scope of the academic research and other literature review undertaken to date; and
2. Identifies key findings and aspects of the academic research literature review relevant for the going concern information gathering activities.

Scope of the Academic Research and Other Literature Review

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

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

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



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

Key Findings from Academic Research

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

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

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

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

Theme	Findings
	<p>firms that are cost-leaders with a narrow and constant mix of products, and cautious incremental growth patterns (Chen et al. 2017).</p> <ul style="list-style-type: none"> iii. Engage in controversial activities related to customers, employees, the environment or the community (Koh and Tong 2013). iv. Are overly optimistic, for example have overly optimistic financial forecasts (Feng and Li 2014), have over-confident management (Kim 2017), and report financial results less conservatively (DeFond et al. 2016). v. Have a new CFO (Zaher 2015; Beams et al. 2016). vi. Have a poor workplace environment for employees (Huang et al. 2017). vii. Fail to remediate internal control deficiencies (Hammersley et al. 2012). viii. Have a CEO with friendship ties to audit committee members (Bruynseels and Cardinaels 2014) <ul style="list-style-type: none"> ➤ SFPs (like Altman Z and models of bankruptcy prediction) use public data and appear to be better predictors of company failure than GCOs (Gerakos et al. 2016; Alareeni and Branson 2017). From a practical perspective, a well-developed SFP could serve as an effective decision aid for auditors concerned with making more accurate going-concern judgements. ➤ Receiving a going concern opinion increases a financially distressed company's probability of bankruptcy only by an average of 0.84 percent in the US, suggesting that, from a practical perspective, auditors and firms, generally, do not need to be overly concerned with the prospect of a GCO sending a company into bankruptcy – i.e., the “self-fulfilling prophesy” hypothesis (Gerakos et al. 2016). Auditors should therefore be aware that client's material uncertainty about the going concern could lead to bankruptcy and not the issuance of a GCO ‘as such’. ➤ The following observations suggest that the auditor's GCO is important as it has a substantial impact in a multitude of ways: <ul style="list-style-type: none"> i. A first-time GCO increases the company's cost of equity capital by an average of 3.3 to 5.2 percent (Amin et al. 2014). ii. Credit rating agencies typically downgrade the company's credit rating after a first time GCO (Feldman and Read 2013; Strickett and Hay 2015) iii. Recent research documents negative share price consequences to equity owners (Czerney et al. 2019), consistent with prior research. iv. Experienced investors associate type II errors with lower audit quality, and type I errors with higher audit quality (Christensen et al. 2016).

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

Attachment 2

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

Robyn Moroney, Professor, RMIT University

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

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

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

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

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

² Note: Geiger research used in the IAASB academic research

AUASB Agenda Paper

1.	Title:	Appendix 2 to Agenda Paper 4.1	2.	Date:	18 November 2022
3.	ATG Staff	Rene Herman	4.	Agenda Item:	4.1.2

Summary of current IAASB proposals being deliberated by the IAASB (being presented at December IAASB meeting)

Basis of Accounting is Appropriate, and:	Description	Applicability
No Material Uncertainty Exists	<p>Under a heading GC: Providing explicit statements about Going Concern in the auditor's report:</p> <ul style="list-style-type: none"> A statement providing a conclusion that management's use of the going concern basis of accounting is appropriate. Based on evidence obtained has not identified any material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern have been identified. 	All entities
No Material Uncertainty Exists <i>Events or Conditions Have Been Identified that may Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern</i>	<p>Under a heading GC:</p> <ul style="list-style-type: none"> As for "No Material Uncertainty Exists" above. Drawing attention to notes in financial statements Describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern State that the auditor's opinion is not modified in respect of matter 	Listed entities

Material Uncertainty Exists <i>Adequate Disclosure is Made in the Financial Statements</i>	Under a heading MURGC: Enhanced informational content for MURGC paragraphs in the auditor's report by providing an explicit statement: <ul style="list-style-type: none"> • State that the auditor concluded that management's use of the GC basis of accounting is appropriate • Drawing attention to notes in financial statements • That the events/conditions indicate that a material uncertainty exists that may cast a significant doubt 	All entities
	<ul style="list-style-type: none"> • Requiring the auditor to describe how the auditor evaluated management's assessment of the entity's ability to continue as a GC and • State that the auditor's opinion is not modified in respect of matter 	Listed entities



Examples of auditor's report wording – extracted from December 2022 IAASB papers:

Illustration 1 – Unmodified Opinion When No Events or Conditions Have Been Identified That May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern and No Material Uncertainty Exists.

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Illustration 2 – Unmodified Opinion When Events or Conditions Have Been Identified That May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern But No Material Uncertainty Exists and Disclosure in the Financial Statements Is Adequate (listed entity)

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Events or Conditions That May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern

We draw attention to Note X in the financial statements, which describes the political and economic uncertainties faced by the Company and the range of mitigating actions that have been deployed to address the effects on the Company's business activities.

[Description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in accordance with ISA 570 (Revised 202X).]

Our opinion is not modified in respect of this matter.

Illustration 3 – Unmodified Opinion When a Material Uncertainty Exists and Disclosure in the Financial Statements Is Adequate (not a listed entity)

Material Uncertainty Related to Going Concern

We have concluded that managements' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. However, we draw attention to Note X in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note X, these events or conditions, along with other matters as set forth in Note X, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Illustration 4 – Unmodified Opinion When a Material Uncertainty Exists and Disclosure in the Financial Statements Is Adequate (listed entity)

Material Uncertainty Related to Going Concern

We have concluded that managements' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. However, we draw attention to Note X in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note X, these events or conditions, along with other matters as set forth in Note X, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

[Description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in accordance with ISA 570 (Revised 202X).]

Our opinion is not modified in respect of this matter.



AUASB Agenda Paper

Title:	Appendix 3 to Agenda Paper 4.1 - Illustrative Auditor's Report	Date:	23 November 2022
ATG Staff:	Rene Herman	Agenda Item:	4.1.3 (SP)

Extracted from IAASB Papers

Appendix 2

Illustrative Auditor's Reports – For Discussion Purposes Only

Objective

This Appendix presents two alternative formats which assisted the Task Force in its deliberations about the placement of the auditor's communication about identified fraud risks and the auditor's response in the auditor's report (of a listed entity). The following illustrations are included to solicit the Board's input as to such placement:

- **Proposed Illustration 1:** Separate section "Identified Fraud Risks and the Auditor's Response" following the Going Concern or the Material Uncertainty Related to Going Concern sections, as applicable, in the auditor's report.
- **Proposed Illustration 2:** Identified fraud risks (and the auditor's response) clearly signposted under the heading "Key Audit Matters, including Fraud Risks" in the auditor's report.

Given that the Task Force is interested in the Board's views as to the placement of the auditor's communication about identified fraud risks and the auditor's response in the auditor's report, the Task Force is not looking for comments on the wording in the illustrative reports.

Note

Red text – wording sourced from current projects or recently released publications

Blue text – proposed wording included by the Task Force for discussion purposes only

Illustration 1 – Auditor's Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework

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

- Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised)¹ does not apply).
- The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.²
- 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 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 the audit in the jurisdiction, and the auditor refers to both. The IESBA Code and the ethical requirements relating to the audit in the jurisdiction include differential independence requirements that are applicable to audits of financial statements of public interest entities. They also require the auditor to publicly disclose that the differential independence requirements applicable to audits of financial statements of public interest entities were applied.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist and no related to events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA 570 (Revised 202X).³
- Key audit matters have been communicated in accordance with ISA 701.⁴
- 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 Statements⁵

¹ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

² ISA 210, *Agreeing the Terms of Audit Engagements*

³ ISA 570 (Revised 202X), *Going Concern*

⁴ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

⁵ 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.

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-summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), as applicable to public interest entities, together with the ethical requirements for public interest entities that are relevant to our audit of the financial statements in [jurisdiction]. ~~and we~~ We have also fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Identified Fraud Risks and the Auditor's Response

We identified the following risks of material misstatement due to fraud (fraud risks):

Identified Fraud Risks	Our Response and Findings
<i>Risk of Fraud in Revenue Recognition</i>	
As part of our risk assessment and based on a presumption that there are risks of fraud in revenue recognition, we evaluated which types of revenue transactions and assertions give rise to the risk of fraud in revenue recognition. The Company enters into contracts that are considered complex from a revenue recognition perspective. We focused on those contracts which include a fixed price element. The nature of those contracts require management to estimate the cost to complete, that impacts the revenue recognized.	Where relevant to our audit, we assessed the design of the internal control measures related to revenue recognition and in the processes for generating and processing journal entries related to the revenue.

<p>Estimates are inherently uncertain and might be subject to management bias. There might be incentives for management to use estimates in order to satisfy stakeholders, reach key performance indicators (KPIs) outlined in compensation plans and/or to meet debt covenants.</p>	<p>We used a primarily substantive testing-based approach with respect to the cost to complete. The audit procedures included obtaining evidence to support applied hourly rates, challenging the number of expected hours to complete the project and reconciling changes in budgets to supporting evidence such as contract modifications. We also discussed the progress of the projects with the respective project managers and management of the operating companies. When performing these audit procedures, we remained alert to the inherent</p> <div data-bbox="788 701 1386 1207" style="border: 1px solid black; padding: 10px;"> <p><i>Illustrative finding</i></p> <p>We have identified a significant deficiency in internal control relevant to the prevention and detection of fraud based on our understanding of the Company's system of internal control as it relates to revenue recognition. We have communicated the significant deficiency in internal control to those charged with governance. The matter has been described in note XX to the financial statements, including management's plans to remediate the significant deficiency</p> </div> <p>risk of management bias.</p>
<p><i>Risk of Management Override of Controls</i></p>	
<p>The risks of fraud and management's ability to override the system of internal control are present in every entity.</p> <p>We therefore paid attention to the risk of management override of controls, including identifying fraud risks based on an analysis of potential interests of management such as the incentive by management to meet certain targets. Considering this analysis, we paid specific attention to the estimate of the cost to complete on revenue contracts.</p>	<p>We evaluated the design of the internal control environment that reduces the risk of a breach of internal controls. Also, we paid specific attention to user access management in the IT system and performed compensating procedures when necessary.</p> <p>We selected journal entries based on risk criteria and performed audit procedures to validate these entries.</p> <p>We also performed specific audit procedures regarding important estimates made by management, including the cost to complete revenue contracts for clients. In our assessment of estimates, we remained alert to the inherent risk of bias from management with regards to estimates.</p>

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	Our Work and Findings
<i>Project Revenue Recognition and Valuation of Contract Assets</i> (Refer to notes XY and YY of the financial statements)	
<p>We consider this a key audit matter since project revenue recognition and the valuation of contract assets are significant to the financial statements based on materiality and because of the degree of management judgement involved.</p> <p>Management applies judgement to determine the cost to complete for contracts, which is the basis for revenue recognition and contract asset valuation, as well as for assessing provisions for onerous contracts.</p> <p>In addition, the valuation of contract assets requires significant management judgement in determining recoverability, especially in the XYZ region, considering the above average ageing and the magnitude of the contract assets.</p>	<p>We assessed the nature of the Company's revenue contracts. We performed substantive audit procedures on individually significant projects as well as high-risk projects. In addition, we took a sample over the remaining population to ensure sufficient coverage over all projects.</p> <p>These substantive procedures focused on the key assumptions applied by the Company to determine the cost to complete. The procedures included obtaining evidence to support applied hourly rates, challenging the number of expected hours to complete the project and reconciling changes in budgets to supporting evidence such as contract modifications. We also discussed the progress of the projects with the respective project managers and management of the operating companies. In these audit procedures, we were alert to management bias.</p> <p>With regards to the above average ageing, magnitude of the contract assets in the XYZ region, and the announced decision to reduce the Company's footprint in the XYZ region, specific attention has been given to the collection of trade receivables and valuation of several contracts with significant contract assets. We have discussed management's position papers for these projects with the responsible project managers, the contract solutions team and the regional CFO and CEO. We have obtained supporting documentation, which included support for contract modifications, correspondence with the client and minutes confirming the status of negotiations with the client.</p> <p>We assessed the adequacy of the disclosures relating to revenue recognition, in accordance with the requirements of IFRS 15.</p>

	Our procedures did not result in material findings with respect to revenue recognition and the related disclosures.
<i>Valuation of Goodwill and Intangible Assets (Refer to note ZZ of the financial statements)</i>	
<p>We focused on this area given the magnitude of the goodwill balance and because the executive board's assessment of the 'value in use' of the Company's eight Cash Generating Units (CGUs) is subject to significant estimation uncertainty. This involves significant judgement about the future revenue growth, operating earnings before interest tax and amortization (EBITA) margin, working capital developments and the discount rates applied to discount cash flow forecasts.</p> <p>Note ZZ to the financial statements discloses the key assumptions applied by management for goodwill impairment testing.</p> <p>We especially focused our audit efforts on those CGUs that had limited headroom, specifically the AA CGU.</p>	<p>Our audit procedures mainly included, an assessment of assumptions applied in the model, testing of the inputs to the model, assessing the disclosure note on goodwill, testing mathematical accuracy of the model and a reconciliation of the model to the five-year forecasts and long-term strategic plans that were approved by senior management. Our valuation experts supported us in the evaluation of the model in accordance with IAS 36, evaluation of the discount rate as well as other assumptions and methodologies used.</p> <p>We have challenged the assumptions applied by management. This was done by, amongst others, testing the expected margin increase, by comparing the margin and revenue growth to the historic performance of the Company, assessing the expected revenue growth by reviewing available market data for the industry outlook and development of the book-to-bill ratio.</p> <p>Discussions were held with local management of AA CGU, emphasizing the measures taken within the organization to reduce costs and improve margins.</p> <p>Further, we gained an understanding of local management strategic plans to improve the CGU's performance in the future and the inclusion thereof in the forecast used for impairment testing.</p> <p>We also have analyzed the sensitivity of the 'value in use' to changes in the respective assumptions.</p> <p>We assessed the adequacy of the disclosures relating to goodwill in accordance with the requirements of IAS 36.</p> <p>Our procedures did not result in material findings with respect to the valuation of goodwill and the related disclosures.</p>

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

Management⁶ is responsible for the other information. The other information comprises the [information included in the X report,⁷ but does not include the financial statements and our auditor's report thereon.]

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit 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 of Management and Those Charged with Governance for the Financial Statements⁸

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs,⁹ and for such internal control as management determines 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, management is responsible for assessing the Company'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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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 ISAs 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.

Paragraph 41(b) of this ISA explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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

⁶ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

⁷ A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.

⁸ Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁹ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ..."

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 Company's internal control.¹⁰
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management'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 Company'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 Company 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.

We communicate with 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law, regulation or national auditing standards. The matters addressed by other law, regulation or national auditing standards (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISAs as part of the Report on the Audit of the Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the ISAs may be combined (i.e., included in the Report on the Audit of the Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the ISAs where such a difference exists.]

¹⁰ This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

AUASB Agenda Paper

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 2 – Auditor’s Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework

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

- Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 **(Revised)** does not apply).
- The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in ISA 210.¹¹
- 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 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 the audit in the jurisdiction, and the auditor refers to both. **The IESBA Code and the ethical requirements relating to the audit in the jurisdiction include differential independence requirements that are applicable to audits of financial statements of public interest entities. They also require the auditor to publicly disclose that the differential independence requirements applicable to audits of financial statements of public interest entities were applied.**
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist **and no related to** events or conditions **have been identified** that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ISA 570 (Revised **202X**).
- Key audit matters have been communicated in accordance with ISA 701.¹²
- 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]

¹¹ ISA 210, *Agreeing the Terms of Audit Engagements*

¹² ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*

Report on the Audit of the Financial Statements¹³

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~~a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), as applicable to public interest entities, together with the ethical requirements for public interest entities that are relevant to our audit of the financial statements in [jurisdiction], ~~and we~~ have also fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Key Audit Matters, including Fraud Risks

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. Key audit matters also include risks of material misstatement due to fraud (fraud risks) determined as such. 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.

Project Revenue Recognition and Valuation of Contract Assets (Refer to notes XY and YY of the financial statements)

We consider this a key audit matter since project revenue recognition and the valuation of contract assets are significant to the financial statements based on materiality and because of the degree of management judgement involved.

Management applies judgement to determine the cost to complete for contracts, which is the basis for revenue recognition and contract asset valuation, as well as for assessing provisions for onerous contracts.

¹³ 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 addition, the valuation of contract assets requires significant management judgement in determining recoverability, especially in the XYZ region, considering the above average ageing and the magnitude of the contract assets.

We assessed the nature of the Company's revenue contracts. We performed substantive audit procedures on individually significant projects as well as high-risk projects. In addition, we took a sample over the remaining population to ensure sufficient coverage over all projects.

These substantive procedures focused on the key assumptions applied by the Company to determine the cost to complete. The procedures included obtaining evidence to support applied hourly rates, challenging the number of expected hours to complete the project and reconciling changes in budgets to supporting evidence such as contract modifications. We also discussed the progress of the projects with the respective project managers and management of the operating companies. In these audit procedures, we were alert to management bias.

With regards to the above average ageing, magnitude of the contract assets in the XYZ region, and the announced decision to reduce the Company's footprint in the XYZ region, specific attention has been given to the collection of trade receivables and valuation of several contracts with significant contract assets. We have discussed management's position papers for these projects with the responsible project managers, the contract solutions team and the regional CFO and CEO. We have obtained supporting documentation, which included support for contract modifications, correspondence with the client and minutes confirming the status of negotiations with the client.

We assessed the adequacy of the disclosures relating to revenue recognition, in accordance with the requirements of IFRS 15.

Our procedures did not result in material findings with respect to revenue recognition and the related disclosures.

Valuation of Goodwill and Intangible Assets (Refer to note ZZ of the financial statements)

We focused on this area given the magnitude of the goodwill balance and because the executive board's assessment of the 'value in use' of the Company's eight Cash Generating Units (CGUs) is subject to significant estimation uncertainty. This involves significant judgement about the future revenue growth, operating earnings before interest tax and amortization (EBITA) margin, working capital developments and the discount rates applied to discount cash flow forecasts.

Note ZZ to the financial statements discloses the key assumptions applied by management for goodwill impairment testing.

We especially focused our audit efforts on those CGUs that had limited headroom, specifically the AA CGU.

Our audit procedures mainly included, an assessment of assumptions applied in the model, testing of the inputs to the model, assessing the disclosure note on goodwill, testing mathematical accuracy of the model and a reconciliation of the model to the five-year forecasts and long-term strategic plans that were approved by senior management. Our valuation experts supported us in the evaluation of the model in accordance with IAS 36, evaluation of the discount rate as well as other assumptions and methodologies used.

We have challenged the assumptions applied by management. This was done by, amongst others, testing the expected margin increase, by comparing the margin and revenue growth to the historic performance of the Company, assessing the expected revenue growth by reviewing available market data for the industry outlook and development of the book-to-bill ratio.

Discussions were held with local management of AA CGU, emphasizing the measures taken within the organization to reduce costs and improve margins.

Further, we gained an understanding of local management strategic plans to improve the CGU's performance in the future and the inclusion thereof in the forecast used for impairment testing.

We also have analyzed the sensitivity of the 'value in use' to changes in the respective assumptions.

We assessed the adequacy of the disclosures relating to goodwill in accordance with the requirements of IAS 36.

Our procedures did not result in material findings with respect to the valuation of goodwill and the related disclosures.

Fraud Risk: Revenue Recognition

As part of our risk assessment and based on a presumption that there are risks of fraud in revenue recognition, we evaluated which types of revenue transactions and assertions give rise to the risk of fraud in revenue recognition.

The Company enters into contracts that are considered complex from a revenue recognition perspective. We focused on those contracts which include a fixed price element. The nature of those contracts require management to estimate the cost to complete, that impacts the revenue recognized.

Estimates are inherently uncertain and might be subject to management bias. There might be incentives for management to use estimates in order to satisfy stakeholders, reach key performance indicators (KPIs) outlined in compensation plans and/or to meet debt covenants.

Where relevant to our audit, we assessed the design of the internal control measures related to revenue recognition and in the processes for generating and processing journal entries related to the revenue.

We used a primarily substantive testing-based approach with respect to the cost to complete. The audit procedures included obtaining evidence to support applied hourly rates, challenging the number of expected hours to complete the project and reconciling changes in budgets to supporting evidence such as contract modifications. We also discussed the progress of the projects with the respective project managers and management of the operating companies. When performing these audit procedures, we remained alert to the inherent risk of management bias.

Illustrative finding

We have identified a significant deficiency in internal control relevant to the prevention and detection of fraud based on our understanding of the Company's system of internal control as it relates to revenue recognition. We have communicated the significant deficiency in internal control to those charged with governance. The matter has been described in note XX to the financial statements, including management's plans to remediate the significant deficiency

Fraud Risk: Risk of Management Override of Controls

The risks of fraud and management's ability to override the system of internal control are present in every entity.

We therefore paid attention to the risk of management override of controls, including identifying fraud risks based on an analysis of potential interests of management such as the incentive by management to meet certain targets. Considering this analysis, we paid specific attention to the estimate of the cost to complete on revenue contracts.

We evaluated the design of the internal control environment that reduces the risk of a breach of internal controls. Also, we paid specific attention to user access management in the IT system and performed compensating procedures when necessary.

We selected journal entries based on risk criteria and performed audit procedures to validate these entries.

We also performed specific audit procedures regarding important estimates made by management, including the cost to complete revenue contracts for clients. In our assessment of estimates, we remained alert to the inherent risk of bias from management with regards to estimates

Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]

Management¹⁴ is responsible for the other information. The other information comprises the [information included in the X report,¹⁵ but does not include the financial statements and our auditor’s report thereon.]

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit 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 of Management and Those Charged with Governance for the Financial Statements¹⁶

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs,¹⁷ and for such internal control as management determines 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, management is responsible for assessing the Company’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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from

¹⁴ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

¹⁵ A more specific description of the other information, such as “the management report and chairman’s statement,” may be used to identify the other information.

¹⁶ Throughout these illustrative auditor’s reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

¹⁷ Where management’s responsibility is to prepare financial statements that give a true and fair view, this may read: “Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ...”

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.

Paragraph 41(b) of this ISA explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 Company's internal control.¹⁸
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management'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 Company'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 Company 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.

We communicate with 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be

¹⁸ This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law, regulation or national auditing standards. The matters addressed by other law, regulation or national auditing standards (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISAs as part of the Report on the Audit of the Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the ISAs may be combined (i.e., included in the Report on the Audit of the Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the ISAs where such a difference exists.]

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]

[Date]

AUASB Bulletin

[Considerations in Auditing Fundraising Revenue of Not-for-Profit Entities in a Digital Age]

Draft

ISSUED BY
AUDITING AND ASSURANCE STANDARDS BOARD



Australian Government
Auditing and Assurance Standards Board

Table of contents

Introduction and purpose.....	3
Understanding the regulatory and legal framework of the Not-for- Profit Entity	3
Nature of Fundraising revenue.....	3
Audit of Fundraising Revenue in a Digital Age	3
Risk Considerations.....	3
Internal Control	3
Materiality	3
Fraud.....	3
Responses to Assessed Risks.....	3
Other considerations in an Audit of Fundraising revenue.....	3
Where to find further information.....	4

Draft



Introduction and purpose

[Insert text here]

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

[Insert text here]

Nature of Fundraising revenue

[Insert text here]

Audit of Fundraising Revenue in a Digital Age

Risk Considerations

[Insert text here]

Internal Control

[Insert text here]

Materiality

[Insert text here]

Fraud

[Insert text here]

Responses to Assessed Risks

[Insert text here]

Other considerations in an Audit of Fundraising revenue

[Insert text here]

Area of the Audit	Standard references/Considerations
Forming an Opinion and Reporting – Evaluation of misstatements	ASA 450

Forming an Opinion and Reporting – Impacts on the audit report	ASA 700 ASA 705 – Modifications ASA 706 – EOM's
Forming an Opinion and Reporting – Related parties	ASA 550
Communication with Those Charged with Governance (TCWG)	ASA 260 ASA 265

Where to find further information

Refer auditors to our AUASB Not-for-Profit landing page on the website that will now include:

Updated Appendices:

- Example controls and audit procedures; and
- Example reports / qualifications

Other reference materials – academic research, link to AASB Tier 3 DP etc



AUASB Project Plan

Project Title:	GS 019 <i>Auditing Fundraising Revenue of Not-for-Profit Entities</i> Project Plan
Date Prepared:	19 September 2022
Date Approved:	Oct 2022
ATG Member:	Marina Michaelides
AUASB Member:	Bill Edge
Version number:	1

Overview of Project

Information Gathering/Background

Why is this being brought to the AUASB's attention?

At the September 2020 AUASB Meeting, the AUASB approved the AUASB Technical Group's (ATG) plan to update several Guidance Statements including GS 019 *Auditing Fundraising Revenue of Not-for-Profit Entities*. The recommendation was based on feedback received from stakeholders in response to a discussion paper and survey issued to obtain broad feedback on the suite of guidance statements.

What information gathering has been completed to date?

The ATG undertook a process in 2019 to analyse the suite of guidance statements on issue to identify guidance statements that may require updating or withdrawal. As part of this process the ATG undertook a high-level review of the guidance statement and identified out of date cross-references to AUASB standards as well as the change in the way in which fundraising revenue is collected. Further feedback was sought by the ATG as part of the consultation process in 2020.

What additional information gathering needs to be completed and why?

The ATG will discuss matters with the stakeholders outlined below as required throughout the process. The ATG don't believe that a formal NFP Public Advisory Group (PAG) is required for an update however this will be determined once initial feedback has been sought from key stakeholders. However, the ATG is likely to need to access the practical expertise of auditors of NFPs when thinking about the digitisation of processes and controls and the use of technology around fundraising revenue.

Who are the relevant stakeholders, and have they provided input to the information gathering?

- Auditors of NFPs
- Australian Charities and Not-for-profits Commission (ACNC)
- Professional Bodies

As part of the information gathering, the ATG has discussed the current fundraising revenue collection with selected stakeholders including ACNC, professional bodies and assurance practitioners.

The ACNC were able to provide the AUASB with some data on audit report qualifications and trends over the last three years:

Reporting period	Total audit / review reports examined	Total modified audit / review reports	Fundraising modified opinion	Fundraising emphasis of matter
2018	195	23	23	4
2019	252	30	24	0
2020	227	18	16	3

In 2020 7% of charities' auditor/reviewer reports contained a modified opinion/conclusion. The most common modification to the opinion related to cash donations received. This is common in the not-for-profit sector due to difficulties for auditors and reviewers in gathering sufficient evidence about the completeness of the income received from cash donations; that is, an impracticability to establish control over the collection of cash donations.

Only 6% of charities' auditor/reviewer reports contained an emphasis of matter other than the basis of accounting being SPFS.

A common emphasis of matter we observed concerned material uncertainties due to the impacts of the COVID-19 pandemic.

Based on the feedback received from practitioner's stakeholders, there is a decrease in use of cash revenue collections for NFPs/Charities especially during COVID-19 pandemic. GS 019 is not widely used by the practitioners however the appendices in GS 019 are a very useful resource and stakeholders would like to see these updated and retained. The main issues faced by practitioners' stakeholders were around accounting practices and application of accounting standards. The low take up of reviews vs audits for medium sized NFPs was also noted in some cases this was impacted by the NFPs constitution requiring an annual audit and also consideration of the differential in cost of an audit vs reviews. NFPs see an audit as better value for money.

Scope

What are the major issues that need to be addressed?

Since GS 019 was issued in 2011 there has been a change in how fundraising revenue is primarily collected. Fundraising activities have mostly gone digital especially after COVID-19. Large proportion of revenue collection is done electronically and recording processes of revenue collection has become more complicated and technology driven than in the past. The lack of physical evidence has also meant that audit risks around fundraising revenue has increased. Auditors now need to consider general IT controls and other security risks such as breaching of privacy laws when dealing with credit cards.

Project Objective

The objective of this project is to withdraw GS 019 *Auditing Fundraising Revenue of Not-for-Profit Entities* issued by the AUASB in 2011 and replace with a targeted AUASB Bulletin on areas for auditors to consider for NFP fundraising revenue. This targeted Bulletin will make references to other relevant Bulletins issued, e.g. ASA 315 and the Auditor's Responsibilities for General IT Controls and ASA 315: Scalability Considerations for Audits of Less Complex Entities.

Project Scope

The scope of the project is intended to be limited to issuing an AUASB Bulletin relating to the fundraising revenue collection and the impacts of the collection methods (physical and IT) on audit procedures to be performed and any modifications to the audit report.

The current version of Guidance Statement 019 *Auditing Fundraising Revenue of Not-for-Profit Entities* (GS 019) was issued in April 2011 and is focussed on physical donations (door-to-door or postal collections, special events etc) and audit procedures of such revenue streams. Based on the outreach activities undertaken to date, the ATG has determined that, based on the information obtained, GS 019 is no longer fit-for-purpose as the guidance provided is outdated as very few NFPs/Charities collect a material amount of revenue in cash, especially during the COVID-19 pandemic. However, practitioner stakeholders have expressed that the appendices of GS 019 are still useful and should be updated and maintained. The ATG propose to create a landing page on AUASB website that will house all the AUASB resources available to NFPs including the updated appendices on:

- Example controls and audit procedures relating to fundraising revenue; and
- Example reports / qualifications

Issues Out of Scope of this project

Other feedback provided by stakeholders include low take up of reviews vs audits for medium sized NFPs and difficulty in the application of accounting standards e.g. AASB 1058 Income for NFPs, AASB 16 Leases and AASB 124 Related Party Disclosures. The AASB Tier 3 Discussion Paper will hopefully assist with removing some of the complexity for the sector in these areas.

These issues will not be addressed in this targeted Bulletin but may be considered for future Bulletins to address broader issues faced by assurance practitioners when auditing NFPs.

Project Governance

Why is this in the public interest?

The AUASB as an independent standard-setter serves the public interest by developing, issuing and maintaining high-quality audit-related standards and guidance that enhance audit and assurance quality and consistency, thereby contributing to stakeholder confidence in the Australian economy, including its capital markets, and enhanced credibility in external reporting through independent auditing and assurance.¹ One of the AUASB strategic objectives is to develop and maintain guidance for topics not specifically addressed by IAASB Standards where required. Therefore, it is in the public interest to maintain guidance on auditing fundraising revenue of Not-for-Profit entities.

Action Plan

Date	Description
November 2022	AUASB Meeting – Present scoping documents/Outline of proposed Bulletin
November 2022 – February 2023	Development of new AUASB Bulletin based on AUASB feedback
December 2022 - January 2023	Seek feedback on draft Bulletin from a small group of practitioner stakeholders
February 2023	AUASB Bulletin provided to Board for fatal flaw review. Finalise changes and issue Bulletin

¹ See [AUASB Corporate Plan](#).